REPORT of the
AUDITOR GENERAL
to the NOVA SCOTIA

Highlights

104-01633/

REPORT of the AUDITOR GENERAL to the NOVA SCOTIA HOUSE OF ASSEMBLY

HIGHLIGHTS

PREFACE

In an attempt to give readers an appreciation of the most significant findings contained in my Annual Report, I publish annually this highlights volume. It provides a brief summary of the results of audit work carried out in 2003.

However I do suggest that those who wish a fuller understanding of any or all of these matters should refer to the full Report. The highlights volume notes the page numbers of the full Report for each of the subjects.

Again this year we have set out our recommendations to government in each Chapter. To assist readers we have also included all 101 recommendations in this highlights volume. I hope this is useful.

It is also the intent of myself and my staff to provide our messages as clearly and concisely as possible. Comments from readers on the value of this highlights volume or on the complete Report would be welcomed.

E R Salmon

E. ROY SALMON, FCA
Auditor General

Halifax, Nova Scotia
November 28, 2003

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INTRODUCTION

Overview and Significant Issues
Pages 8 – 12

1.1 Although this Report contains many positive findings, there are always areas for improvement and I urge government to act on the recommendations we have made. I realize that resources are limited and many public servants are stretched. I acknowledge their efforts.

1.2 I also wish to acknowledge the efforts of my own staff. The contents of this Report, the additional Reports, as well as others speak for themselves.

GOVERNMENT-WIDE ISSUES

Accountability and Financial Reporting
Pages 14 – 33

2.1 Government released its *Annual Accountability Report* for the year ended March 31, 2002 on December 20, 2002. Reporting for the 2002-03 year is due by December 31, 2003.

2.2 The Auditor General's Report on the 2003-04 revenue estimates, required under Section 9B of the Auditor General Act, was tabled in the House on April 3, 2003 along with the *Nova Scotia Budget*.

2.3 The Province's March 31, 2003 consolidated financial statements were released November 13, 2003 as part of the Public Accounts. The financial statements were audited by our Office and the opinion was unqualified. On November 14, 2003, we released a summary report on the Province's March 31, 2003 financial statements and other financial reporting practices. A separate management letter including more detailed findings and observations is to be issued to government in December 2003.

2.4 New regulatory and other standards for control and reporting will require significant and sustained attention by government.

2.5 Reporting to the House on the planning for and performance of various retirement and other post-employment benefit plans should be enhanced. The related costs and obligations for these benefit plans are affected by a number of market and other risks over which government has limited control.

2.6 Reporting of compensation arrangements for executive and senior management positions in all Provincial public sector entities should, as a minimum, meet the requirements that publicly-traded corporations have had to comply with for many years. Current reporting practices are incomplete and untimely.

2.7 Our recommendations to government from this review are as follows:

Recommendation 2.1

We recommend that government take necessary steps to ensure all entities covered by the Provincial Finance Act meet the June 30 deadline for financial statements to be provided to Finance.

Recommendation 2.2

We again recommend that policies and practices, used during the budgeting and accounting processes for recognition and measurement of Provincial taxes and other revenue transfers from the Federal government, be reviewed.

Recommendation 2.3

We recommend that the management/audit trail, supporting the accounting for Provincial taxes and other revenue transfers from the Federal government, be improved.

Recommendation 2.4

We recommend government implement a requirement for annual compensation reporting by all Provincial public sector entities for executive and senior management positions.

Central Financial Management System/ SAP

Pages 34 – 48

3.1 The Corporate Information Systems (CIS) division of the Department of Finance does not have a formal planning process. There is no strategic plan for the division. There are certain components of operational planning in place, however they are not integrated and do not address all areas of the division's responsibilities. Finance's Business Plan makes no mention of the CIS division as a core business area or in its listing of priorities.

3.2 SAP R/3 was implemented by the Department of Finance on April 1, 1997. SAP security was last audited in 1998. We identified issues this year which point to the need for a comprehensive security and control audit to be completed, particularly since there are plans to implement the human resources module and electronic payments to vendors. For example:

- There are no formally documented policies and standards for CFMS (Central Financial Management System) security or for the correction and transport system.

- There has been inappropriate deployment of powerful security access privileges and there is a need for stronger management and control of user logon accounts.

- There is no formal disaster recovery plan to guide recovery, and no business continuity plan to enable the continued provision of essential services, if a disaster or other significant interruption of computer services was to occur.

- There were significant departures from the described control practices in the correction and transport system.

3.3 Service level agreements in place to define roles, responsibilities and service levels between CIS and broader public sector entities have not been reviewed by legal counsel and certain additional important clauses need to be included.

3.4 Our recommendations to government from this audit are as follows:

Recommendation 3.1

We recommend that senior management institute a formalized planning process for the Corporate Information Systems division in order to establish a clear vision and direction as well as a formalized process to set out the necessary operational requirements for the delivery of services to its various clients.

Recommendation 3.2

We recommend that priority be given to developing and implementing formal detailed policies, standards and practices for security as well as for correction and transport.

Recommendation 3.3

We recommend that management conduct a formal review of all Corporate Information Systems division operational responsibilities and determine the overall nature and extent of policies and standards that should be in place to promote a control conscious environment aligned with industry standard information technology control practices.

Recommendation 3.4

We recommend that government commission a full and independent audit of SAP security and control as soon as possible.

Recommendation 3.5

Further, government should consider establishing a project to develop or otherwise acquire security and control 'best practices' in an SAP environment.

Recommendation 3.6

We recommend that the SAP_ALL profile should not be assigned to any staff or user ID in the production environment including BASIS staff. As a maximum there should only be one user ID established with this profile and it should be highly controlled and used only for emergency purposes.

Recommendation 3.7

We recommend that management review the deployment of all powerful security profiles and authorization objects. This review should focus on the appropriateness of such deployments and examine the associated risks as well as the adequacy of the controls established to mitigate these risks.

Recommendation 3.8

We recommend that a formal security policy be established including a component that specifically requires the following:

- Once an ID goes 180 days without use it should be locked and the user contacted to determine if the ID is still required.
- There should be an annual renewal of all user IDs to pick up changes in user responsibilities, movement of users between departments and termination of users.

Recommendation 3.9

We recommend that all users listed as having the capability of updating key global accounting settings be examined to determine why they need these capabilities, and to assess the associated risks.

Recommendation 3.10

We recommend that management make a determination of the issues and challenges in converting to a role-based approach to implementation of access security and develop a detailed transition plan for the conversion.

Recommendation 3.11

We recommend that senior management establish and test a disaster recovery plan as soon as possible.

Recommendation 3.12

We recommend that the SAP Projects Office should ensure that the standard project implementation methodology includes the evaluation of the disaster recovery plan against the business requirements. This evaluation will feed into the update of the business owners' existing Business Continuity Plan.

Recommendation 3.13

We recommend the establishment of a policy requiring all departments to have an appropriate business continuity plan, and that this plan be kept up-to-date on an ongoing basis. Further, we recommend the establishment of an initiative to undertake the development and implementation of a corporate business continuity planning process.

Recommendation 3.14

We recommend that, in conjunction with the development of a corporate business continuity planning process, the Business and Technology Advisory Committee (BTAC) should also examine the needs for a corporate disaster recovery planning process, as it relates to the provision of computer services.

Recommendation 3.15

We recommend that the SAP Projects Office ensure that the standard project implementation methodology includes updating the business continuity plan to reflect the new system.

Recommendation 3.16

We recommend that the current service level agreements should be reviewed by legal counsel.

Recommendation 3.17

We recommend that the agreements contain clauses to specifically address each party's responsibility for disaster recovery and business continuity planning.

Recommendation 3.18

We recommend that government address the need for an annual service auditor review and reporting on the controls surrounding the SAP infrastructure and related Corporate Information Systems services.

Recommendation 3.19

We recommend that appropriate policies and procedures for using the SAP correction and transport system be designed, documented and implemented.

Recommendation 3.20

We recommend that use of the 'Remedy' system, or an acceptable alternative determined by management, be considered to manage the work flow of the SAP correction and transport system.

DEPARTMENTAL AUDITS

• • Community Services

Housing Services

Pages 50 – 65

4.1 Strategic and business planning have been performed for the Housing Services Division and the Housing Development Corporation. We observed compliance with government's business planning guidelines. Performance measures have been developed for both the Division and the Corporation. We advised that the Division should develop performance measures for each of its stated priorities.

4.2 Internal and external accountability structures and reporting are appropriate.

4.3 There is a need to update and possibly consolidate the Province's social housing-related legislation. There is a similar need to update Department policies and procedures for social housing programs.

4.4 We observed reasonable systems during our examination of financial management and reporting for social housing programs. The completion of the Department's new computerized property management system should further improve program management.

4.5 Many of the non-government housing sponsors receiving government subsidies, such as co-operatives and non-profit housing societies, are experiencing serious financial difficulties. Department staff monitor the organizations and provide advice. However, we found that the Department does not always get all the information needed from housing sponsors on a timely basis, and Department reviews and building inspections are not occurring as regularly as required.

4.6 We observed weaknesses in the Department's compliance with program requirements for its Residential Rehabilitation Assistance Program. Verification of client income did not always follow guidelines, legal documents were not always correct or complete, and property inspections were not always well-documented.

4.7 Control over the processing and monitoring of recoveries from the Federal government is reasonable.

4.8 The Department has performed or participated in a number of evaluations and studies of its various social housing programs. These exercises are valuable in assessing whether programs are meeting their objectives. The Department has fallen behind in some program evaluations required by Federal-Provincial agreements, but there is a formal plan for performing them.

4.9 Our recommendations to government from this audit are as follows:

Recommendation 4.1

We recommend the Department work with its Minister, government and the Legislature to update, and possibly consolidate, the Housing Act and Housing Development Corporation Act.

Recommendation 4.2

We recommend Housing Services Division develop and monitor financial ratios and other performance measures for each of the various housing sponsors subsidized by the Department.

Recommendation 4.3

We recommend that the Department develop a formal, comprehensive system for conducting reviews and property inspections of housing sponsors. Policies concerning the selection, performance, quality control and follow-up of reviews and inspections should be documented.

Recommendation 4.4

We recommend the Department improve its files for the monitoring of housing sponsors. The Department should also monitor rents charged by housing sponsors and assess them for reasonableness in comparison to market rents.

Recommendation 4.5

We recommend Housing Services Division develop quality assurance procedures to ensure all Residential Rehabilitation Assistance Program requirements are being met.

• • Education

Accountability of School Boards

Pages 66 – 82

5.1 School boards are generally complying with the original (1995) accountability requirements in the Education Act for submission of business plans, budgets, and audited financial statements. The Department has drafted Regulations and related policy and procedures for many of the new accountability reporting requirements which came into place with the May 30, 2002 changes to the Education Act included in the Financial Measures (2002) Act. We encourage the

Department to complete this initiative by obtaining approval of the Regulations on a timely basis.

5.2 The majority of recommendations made in two special reviews conducted in 2001-02 (Minister's Review Committee Report on Chignecto-Central and Strait Regional School Boards and a consultant's report on the Strait Regional School Board) are in various stages of implementation by the Department and by the Boards. Many of the Regulations have been drafted and we urge the Department to proceed with approval and implementation.

5.3 Although the Department has many important accountability-related initiatives in progress, the detailed planning does not always include specific timelines for completion. We recommend that the Department improve its project management by ensuring that project plans always include timelines. The Department should also formally report on achievement.

5.4 School board accounting policies do not comply with generally accepted accounting principles in certain areas. The Departments of Education and Finance and school boards have been working on a new Regional School Board Financial Handbook for a number of years. We encourage the completion of this initiative and the release of a new Financial Handbook which is totally compliant with generally accepted accounting principles.

5.5 The implementation of a new financial accounting system for school boards was a significant undertaking. The project was completed as planned, by the target date and within the project budget.

5.6 The Department has not been able to fully implement its new funding formula for school boards. For 2002-03, approximately 75% of the total funding allocation was from baseline dollars determined under the old formula and 25% of the allocation was from the new formula. A funding formula which is not applied is of limited value. We encourage the Department and the Education Funding Committee to complete the 2003-04 Department workplan which shows the funding formula as a priority, with a new formula to be implemented for 2004-05.

5.7 Our recommendations to government from this audit are as follows:

Recommendation 5.1

We recommend that the Education Act be changed to include June 30 as the date by which school boards are required to file financial statements with the Department of Education. This change would provide for consistency with the Provincial Finance Act.

Recommendation 5.2

We recommend that the Department of Education update the plan for implementation of changes required by the Financial Measures (2002) Act to include timelines for each initiative. The Department should also formally monitor and periodically report achievement of the plan.

Recommendation 5.3

We recommend that the Departments of Finance and Education continue with efforts to ensure that school board accounting policies comply with generally accepted accounting principles as defined by the Canadian Institute of Chartered Accountants and its Public Sector Accounting Board. The Regional School Board Financial Handbook should be issued in final form as soon as possible. The Department and school boards should also establish a mechanism to ensure that the Handbook is updated as generally accepted accounting principles evolve.

Recommendation 5.4

We recommend that the Department initiate discussions with the school boards, the external auditors and the Department of Finance with a view to obtaining a service organization audit opinion on the systems residing on the central server.

Recommendation 5.5

We recommend that the Department of Education finalize the Community Access to Schools policy.

Recommendation 5.6

We recommend that the Department of Education and the Education Funding Committee proceed with their plans to review the funding formula for school boards with a view towards establishing and implementing a formula which is consistent with the Department's *Principles of Education Financing* and available funding.

Universities – Internal Control and Financial Management

Pages 83 – 105

6.1 In response to suspected fraud at Collège de l'Acadie, in May 2002 the Minister of Education requested the Office of the Auditor General to conduct an audit of the general audit and control environments at the universities and community colleges. We agreed to conduct an audit of certain universities under Section 15 of the Auditor General Act. We were unable to conduct an audit of the Nova Scotia Community College in the current year but are planning one for next year.

6.2 The chapter includes responses to the audit from three universities (see pages 99 to 105).

6.3 Our audit of the internal control environment over revenues and payments at four universities identified no significant control weaknesses, although we made recommendations for enhancements in some areas, including the need for improved cash controls at the Collège de l'Acadie sites.

6.4 Universities have one of two types of pension plans - defined benefit or defined contribution. Five universities have defined benefit plans and three of those five plans have unfunded liabilities. We are concerned with the existence of significant pension deficits at three universities. In addition, one university has a significant operating deficit.

6.5 There is a need at all universities to enhance business planning processes by preparing annual operational or business plans.

6.6 Audited financial statements could be improved if comparisons of actual expenditures to budget were included. Generally accepted accounting principles (GAAP) permit the universities to choose from alternative policies which make it difficult to compare results among institutions. Although all university financial statements currently comply with GAAP, comparability between institutions could be improved if universities implemented common accounting policies. In some cases, unaudited financial information in universities' annual reports requires improvement to enhance understandability.

6.7 Only one of the universities we visited had an adequate inventory system to provide control over computers and related equipment.

6.8 Generally, procurement transactions tested were in compliance with applicable procurement policies although a few instances of non-compliance were noted at all universities. The majority of these instances were exceptions to the policy where the rationale should have been documented more clearly and properly approved.

6.9 Processes and procedures for the collection and reporting of enrolment data are generally good although we believe that the process for identification of non-Canadians and charging of foreign differential fees requires improvement at some universities.

6.10 Our recommendations to universities and government from this audit are as follows:

Recommendation 6.1

We recommend that the universities carefully monitor student accounts receivable balances, and take action where fees are not paid by the end of the semester.

Recommendation 6.2

We recommend that all universities have inventory systems for capital assets, including computers and related equipment. These should be maintained and periodically verified through test counts. The universities should also have formal policies to govern the use and safekeeping of these assets.

Recommendation 6.3

We recommend that universities document the rationale exempting specific purchases from compliance with the procurement policy and that all exceptions be formally approved by the person responsible for procurement.

Recommendation 6.4

We recommend that universities prepare annual business plans which are linked to strategic plans. Business plans should set out operational priorities for the year and related financial information. These plans should be approved by senior management and/or the Board (depending on the governance model in effect).

Recommendation 6.5

We recommend that the Department of Education formally notify universities of its annual funding contribution prior to the beginning of the fiscal year and that the Department strive to establish a longer-term funding commitment.

Recommendation 6.6

We recommend that the approved budget for the year be included on the audited statement of revenue and expenditures for each university. This information would be useful to increase accountability for achieving the financial plan for the year.

Recommendation 6.7

We recommend that universities in Nova Scotia strive to implement common accounting policies. This would increase the comparability of financial information.

Recommendation 6.8

We recommend that all universities establish a formal process to analyze and take appropriate action on all data inconsistencies identified by the Maritime Provinces Higher Education Commission.

Recommendation 6.9

We recommend that universities enhance systems for the identification of foreign students and verify citizenship status of students claiming Canadian citizenship but living outside Canada or submitting transcripts from abroad.

• • Energy

Oil and Gas Exploration and Production

Pages 106 – 122

7.1 Planning is performed within the Department at appropriate times and levels of detail. The Department prepares its annual business plan in accordance with government guidelines.

7.2 The Department has appropriate performance management processes, including the development of work-plans, regular progress meetings and annual performance appraisals. Departmental performance measures require further development and reporting on performance could be improved.

7.3 The regulation of offshore petroleum activities is shared between the Federal and Provincial governments and is the responsibility of a separate organization called the Canada-Nova Scotia Offshore Petroleum Board. We found that the Department's responsibilities relating to the petroleum sector are clearly defined in legislation and regulations and we did not observe any unmet legislative or regulatory requirements.

7.4 We observed efforts by the Department to participate in Federal-Provincial initiatives to make the regulation of offshore activities more efficient.

7.5 The Department administers royalty regulations and agreements on behalf of the Province. There are a number of safeguards built into regulations and agreements to ensure only shareable revenues and expenses are used in the calculation of royalties. The Department is currently auditing revenues and costs of the Sable Offshore Energy Project. We are somewhat concerned about the length of time it is taking to complete audits.

7.6 Approval and monitoring of oil and gas company benefit plans are responsibilities of the Canada-Nova Scotia Offshore Petroleum Board. The Department receives copies of benefit plans and contracts submitted by oil and gas companies from the Board, and uses the information to develop programs that will help Nova Scotian industries and educational institutions develop local capabilities in performing work on offshore projects.

7.7 Legislative and regulatory responsibilities for onshore oil and gas activities are well defined and we saw no instances of unmet requirements. However, we noted a need for improvements in file documentation. We also believe there is a need to formally consider ways of addressing uncertainty and delays in administering onshore rights resulting from two government departments being involved in the process.

7.8 Our recommendations to government from this audit are as follows:

Recommendation 7.1

We recommend that performance reports prepared by the Department state more clearly the objectives being sought and relate the results of the Department's activities to those objectives, along with explanations if targets are not achieved.

Recommendation 7.2

We recommend the Department review its plans for royalty audits to determine if sufficient resources are allocated to ensure audits are completed on a timely basis and address all necessary areas.

Recommendation 7.3

We recommend that the Departments of Energy and Natural Resources develop monitoring procedures to ensure all documentation required has been received and is in the appropriate files.

• • Health

IWK Health Centre

Pages 123 – 141

8.1 When the Province established District Health Authorities (DHAs) in 2001, the IWK was given status as one of two Provincial Health Centres (PHCCs) under the Health Authorities Act. The other PHCC, the Queen Elizabeth II Health Sciences Centre, is governed by the Board of the Capital District Health Authority. The IWK is the only acute care health organization in the Province that does not come under the authority of a DHA.

8.2 The Health Centre uses the Carver model of Board governance. This model is applied differently from other health facilities we have audited in the extent to which decisions are delegated by the Board to management. For example, the Health Centre CEO has the responsibility to approve the business plan whereas in other organizations this responsibility would remain with the Board. The Health Centre Board takes its responsibility for governance very seriously and has established a framework that, although different from other organizations, is strongly supported by governance literature.

8.3 The IWK Health Center has a well-established process for developing the annual business plan and budget. Appropriate levels of management contribute to this process. Cost savings initiatives are allocated to program budgets. However, operational plans developed to achieve budget reductions are not formally documented and the results of specific savings initiatives are not tracked. Operational plans should be formally documented. Actual savings from budget reductions should be monitored and corrective action taken if savings are not realized.

8.4 The Health Centre's expenditures exceeded budget by $3.2 million for 2002-03. The Department of Health indicated it will provide funding to cover this amount.

8.5 The Canadian Council on Health Services Accreditation (CCHSA) conducts an accreditation review on all accredited health services organizations every three years. The IWK Health Centre received an unqualified accreditation in 2002, which is the highest level of accreditation. The CCHSA noted that the Centre's system for drug distribution results in a higher risk of medication errors than in comparable facilities. We have recommended that the Centre investigate the risks associated with this matter and consider whether it would be appropriate to make changes on a more timely basis than is currently planned.

8.6 The IWK's annual financial statements do not discuss the relationship between the Health Centre and the IWK Foundation. The IWK and the Foundation are related parties and the IWK's financial statements should disclose certain information such as any transactions between the parties during the fiscal year.

8.7 The Health Centre continues to make progress in establishing systems to monitor and report indicators of economy and efficiency such as lengths of stay. We recommend that the Health Centre continue to work with other facilities and organizations such as the Department of Health and the Canadian Institute for Health Information to further develop targets, monitor performance and make comparisons between facilities.

8.8 Our recommendations to the Health Centre from this audit are as follows:

Recommendation 8.1

We recommend that the Health Centre institute a quality assurance process for the budget, including an independent review by someone other than the preparer, such as the internal auditor.

Recommendation 8.2

We recommend that the Health Centre strive to document all initiatives approved during the review and challenge of the business plan and budget.

Recommendation 8.3

We recommend that operational plans be formal and written. This would ensure that staff have plans in place to fully address any budget shortfall and provide better accountability for funds.

Recommendation 8.4

We recommend that the Health Centre comply with the provisions of the Health Authorities Act and the Affiliation Agreement relating to joint planning and shared services with the Capital District Health Authority. Such services should be formally reported upon and evaluated as required.

Recommendation 8.5

We recommend that management monitor and report during the year on specific savings initiatives approved during the Business Planning process.

Recommendation 8.6

We recommend that the Health Centre, in conjunction with the facility's supplier of health records abstraction software, make necessary changes to assure that all mandatory fields must be completed before health data can be submitted to the Canadian Institute for Health Information (CIHI). Also, all error reports received from CIHI should be retained and a process implemented to ensure all corrections are made.

Recommendation 8.7

We recommend that the Health Centre ensure the Meditech system, which is used to support radiologists' submissions to the Department of Health, accurately reflects the numbers of diagnostic procedures performed.

Recommendation 8.8

We recommend that the IWK disclose its related party relationship with the IWK Foundation, including transactions between the two entities during the year, in the notes to the Health Centre's financial statements.

Recommendation 8.9

We recommend that the Health Centre analyze the risks, costs and benefits associated with drug distribution systems and consider whether it would be appropriate to move to a unit dose system on a more timely basis.

Recommendation 8.10

We recommend that the Health Centre update its internal procurement policies to comply with the Government's requirements for the Academic, Schools, Hospital sector and clarify internal instructions to ensure compliance with policies.

Recommendation 8.11

We recommend
- formal approval of all purchase requisitions by the purchasing manager; and
- production and review of price change exception reports to ensure that all price changes have been approved.

Recommendation 8.12

We recommend the Health Centre

- review the segregation of duties among staff with pharmacy inventory responsibilities with a view toward improving internal controls;
- ensure that there is appropriate segregation of incompatible duties such as receipt of goods and maintenance of accounting records; and
- ensure that senior financial management reviews adjustments to perpetual inventory.

Recommendation 8.13

We recommend that the Health Centre continue to work with other facilities across Canada and organizations such as the Department of Health and the Canadian Institute for Health Information to further develop targets, monitor performance and make comparisons among facilities.

Long-term Care

Pages 142 – 161

9.1 The Department of Health (DOH) has made significant progress since our last audit of the Program reported in 1997 and 1998. Business planning is now required at the facility level and budgets are approved on a more timely basis. The introduction of the Single Entry Access system has enabled the Department of Health to gather better information on wait lists. However, there is no comprehensive long-term strategic or operational plan for the Program and we recommend that one be prepared, and that the Department continue with its efforts to develop a funding formula for long-term care facilities.

9.2 Significant improvements have been made in the financial assessment process for applicants with the creation of the Eligibility Review Unit (ERU). We have recommended additional enhancements to this process including better documentation of assessments conducted.

9.3 Significant recommendations from our 1997 and 1998 audits which have not been addressed include the need for new legislation and regulations, periodic reassessment of residents' financial status and care needs, and the finalization of draft care standards. We have recommended that these outstanding recommendations be addressed.

9.4 Improvements are needed to DOH's invoice approval process for billings from long-term care facilities. There are no policies to ensure consistent verification procedures among regions. We have recommended that common procedures be implemented to ensure all information on invoices is verified.

9.5 The Department only has one performance indicator for the Long-term Care program and no outcome measures for facilities. To enhance accountability, we have recommended DOH develop indicators at the Department level as well as measures related to the services long-term care facilities provide.

9.6 DOH originally estimated policy changes announced in November 2002 would cost $6 million for fiscal 2003-04. Central government reduced this figure to $3 million during the budget process. Department forecasts at the time this Report was written estimate costs will reach $6 million by 2003-04 year end. We have recommended the Province ensure reasonable estimates of the costs of policy changes are calculated and included in the Estimates.

9.7 The Department receives semi-annual financial forecasts from facilities. We have recommended DOH consider obtaining quarterly forecasts. The Department should also develop processes to monitor areas such as financial management, compliance, and economy and efficiency in LTC facilities.

9.8 DOH funds facility mortgage payments over time through the per diem rates. At the time of our audit, Department staff were accumulating information to estimate the total amount of outstanding facility loans and mortgages to be covered through future per diems. We have recommended the Department continue with efforts in this area.

9.9 Our recommendations to government from this audit are as follows:

Recommendation 9.1

We recommend that the Department prepare strategic and operational/business plans for the Long-term Care program.

Recommendation 9.2

We recommend that the Department of Health continue with its efforts to develop an overall funding formula for the Long-term Care program.

Recommendation 9.3

We recommend that the Province ensure reasonable estimates of the costs of policy changes are calculated and included in the Estimates. These estimates should be available before policy changes are approved.

Recommendation 9.4

We recommend that DOH continue with its efforts to accumulate total outstanding facility loans and mortgages for long term-care facilities. This outstanding amount should be monitored for financial planning purposes.

Recommendation 9.5

We recommend that DOH issue formal, written responses to the recommendations of Task Forces and other groups engaged to review long-term care.

Recommendation 9.6

We recommend that DOH work with its regional offices to develop standard procedures for invoice approval that include verifying new residents, ensuring deceased residents are removed from billings, ensuring mathematical accuracy, and regional and central office approval of invoices before payment. We also recommend that the Department develop a system to monitor compliance with these procedures.

Recommendation 9.7

We recommend that the Eligibility Review Unit of DOH:

- ensure all procedures completed during the financial assessment process are documented;
- obtain official Notices of Assessment or electronic data from Canada Customs and Revenue Agency in addition to copies of income tax returns to ensure income information on file is accurate; and
- develop policies to address non-compliance with the financial assessment process.

Recommendation 9.8

We recommend that DOH increase its financial monitoring of facilities and consider requesting forecast information on a quarterly basis. DOH should also consider whether processes are required to monitor areas such as financial management, internal controls, compliance with policies, and due regard for economy and efficiency in LTC facilities.

Recommendation 9.9

We recommend that DOH develop performance indicators for the Long-term Care program. These indicators should include measures at the Department level as well as measures related to the services long-term care facilities provide. Requiring facilities to periodically report standard performance measures would enhance their accountability to the Department.

Recommendation 9.10

We recommend that DOH review the remaining recommendations from our 1997 and 1998 audits, including:
- new long-term care legislation and regulations;
- requirements for periodic reassessments of residents' care needs and financial status; and
- care standards.

Payments to Physicians

Pages 162 – 179

10.1 A sample of medical and dental fee-for-service claims was tested for compliance with the Health Services Insurance Act and Regulations and the Agreement with the Medical Society of Nova Scotia. All claims tested complied with the provisions of the Act and Agreement.

10.2 Audit and monitoring activities for radiology and pathology claims are not as extensive as for other fee-for-service claims. Pre-assessment controls and the audit and monitoring of payments to physicians for bulk-billed radiology and pathology claims are deficient. Inadequate pre- and post-assessment controls increase the risk that inappropriate radiology and pathology claims will be paid.

10.3 A 1997 decision by the Department of Health to pay physician services claims for patients with expired health cards was not supported by appropriate analysis to identify and assess the potential risks. We have recommended that DOH conduct a detailed analysis of the risks and benefits associated with the payment of claims for patients with expired health cards and that appropriate controls and procedures be implemented.

10.4 The Department of Health has assigned responsibility for the audit of physician fee-for-service claims to Atlantic Blue Cross Care (ABCC) under the current administration contract. ABCC has a comprehensive audit process in place to ensure the accuracy of physician fee-for-service claims other than for radiology and pathology claims. There is a need to ensure that audits are also performed by external auditors or the Province's Corporate Internal Audit Group on a regular basis.

10.5 The current administrative contract with ABCC does not include provisions which clearly define roles and responsibilities, reporting and information requirements, and mechanisms for the assessment of ABCC performance. DOH should ensure that all new contracts with service providers include such provisions.

10.6 We audited certain aspects of the administration of the Children's Dental Program by Quikcard Solutions Inc. and made recommendations to improve accountability.

10.7 Prior to our audit, DOH had not completed an analysis of whether expected savings from the move to Quikcard Solutions Inc. for processing dental claims had been realized. We have recommended that DOH ensure appropriate follow up is completed to determine whether expected cost savings have been achieved by new projects.

10.8 Our 1998 Report recommended that DOH obtain legal counsel with respect to its rights of ownership over the software used by ABCC to process physician medical payments. The recommendation has not been implemented. This is an important issue that should be examined as part of the Department's assessment of alternatives for the administration of physician medical payments.

10.9 Our recommendations to government from this audit are as follows:

Recommendation 10.1

We recommend that DOH conduct a detailed analysis of the risks and benefits associated with the payment of claims for patients with expired health cards and that appropriate controls and procedures be implemented.

Recommendation 10.2

We recommend that DOH establish an audit appeals process for physicians.

Recommendation 10.3

We recommend that DOH perform a risk analysis on bulk-billed radiology and pathology claims and establish appropriate audit procedures in conjunction with ABCC.

Recommendation 10.4

We recommend that DOH ensure external auditors or the Department of Finance's Corporate Internal Audit Group are engaged annually to audit medical payments to physicians paid by ABCC.

Recommendation 10.5

We recommend that DOH amend the contract with Quikcard Solutions Inc. to require the external auditors of Quikcard to prepare a management letter detailing any internal control weaknesses as well as a short-form audit opinion.

Recommendation 10.6

We recommend that DOH ensure quarterly internal audits of claims processed by Quikcard are performed by an individual who does not have claims processing responsibilities.

Recommendation 10.7

We recommend that DOH ensure appropriate follow up is completed to determine whether expected cost savings have been achieved by new projects.

Recommendation 10.8

We recommend that DOH fully address all findings from our 1998 and 2000 Reports. In particular, we recommend that the Department obtain a legal opinion regarding ownership rights to the MSI software.

• • Justice

Court Services

Pages 180 – 194

11.1 The Court Services Division has clearly defined and well documented roles and responsibilities.

11.2 The Division strives for consistency of service throughout the Province and has developed some administrative service standards. However, it is constrained by the design and size of some of its facilities. Also, the Supreme Court (Family Division) is currently only established in Halifax and Cape Breton. The Provincial government will be asking the Federal government to expand it to other parts of the Province.

11.3 The judiciary is responsible for the flow of cases through the courts. However, the Division, in consultation with the judiciary and court system stakeholders, has taken steps to help make the operation of the courts more efficient. These include implementing elements of case-flow management in one Halifax-based court, and establishing or improving processes relating to night courts, Justices of the Peace, alternative dispute resolution and mediation, and small claims court.

11.4 The Division performs strategic and business planning, and reports accomplishments relating to its plans. There is regular financial, statistical and operational reporting to help the Division monitor its performance.

11.5 Security over the Division's computer systems appears appropriate, though we believe mandatory password changes, identification of inactive system users and better input quality control procedures for certain systems would strengthen control.

11.6 The Division regularly reviews the fees charged for services it provides. In some cases, fees are waived where warranted by the financial circumstances of a client. We recommended that the Division monitor the number of waiver applications received and the amount of fees waived in order to be better able to assess the impact of waivers on government revenues, as well as on access to justice.

11.7 The Division has appropriate control over the recording, tracking and collecting of fines. Measures have been taken to improve the rate of collection on fines.

11.8 Our recommendations to government from this audit are as follows:

Recommendation 11.1

We recommend that the Division continue to develop and implement standards for court services and include a process for reporting on achievements.

Recommendation 11.2

We recommend that cost and other financial analysis be included as part of program assessments.

Recommendation 11.3

We recommend the Division monitor the number of waiver applications received and the amount of fees waived in order to better assess the impact of waivers on government revenues, as well as on access to justice.

Recommendation 11.4

We recommend that the Division ensure all ticket booklets disbursed are properly recorded in the logbook. We also recommend the Division establish and implement a policy for the periodic review of confirmation receipts to ensure all forms are signed and returned as required.

• • Office of Health Promotion

Nova Scotia Gaming Foundation - Review of Operations

Pages 195 – 208

12.1 In March 2003, the Board of Directors of the Nova Scotia Gaming Foundation wrote our Office to request a review of operations.

12.2 The Board and staff of the Foundation have made progress in many areas since assuming responsibility in 1999. The Foundation has expanded its activities and operations and, at the same time, has been improving its administrative processes.

12.3 The accountability relationship between the Foundation and government is not clear and we recommended this be clarified in a Memorandum of Understanding between the Office of Health Promotion and the Foundation.

12.4 To date, the Foundation has not developed a process to monitor targets established in its strategic plan. We have recommended that the Board implement a formal process to monitor achievement of these targets.

12.5 The Foundation's conflict of interest policy does not address the action to be taken when a conflict is disclosed. We have recommended that the Board expand its policy to include this.

12.6 During the Foundation's stakeholder consultation process, lack of public knowledge of the Foundation and availability of grants was noted. The Foundation's website is a key part of its communication strategy and is under development. We have recommended that the Foundation develop a plan to address completing the website as soon as possible to allow greater access to grant information by applicants.

12.7 Under the Foundation's current grant process, recipients of certain grant types continue to receive subsequent grant installments even if they do not file the required progress reports. We have recommended that the Foundation require formal progress reports be filed in order for applicants to continue to receive grant funds.

12.8 The Foundation has a draft investment policy that deals with funds on deposit and the need to protect the principal invested. There is no long-term financial plan which addresses the fund balance to be maintained or projected grant funding. We have recommended that the Foundation formally approve the draft investment policy and develop a long-term financial plan.

12.9 Our recommendations to government from this review are as follows:

Recommendation 12.1

We recommend that the Foundation and Office of Health Promotion clarify the roles, responsibilities and accountabilities of both parties and incorporate this in any Memorandum of Understanding.

Recommendation 12.2

We recommend that the Board consider implementing a formal process to monitor targets set out in the strategic plan.

Recommendation 12.3

We recommend that the Board further explore its composition and, if appropriate, request that the Minister appoint additional directors.

Recommendation 12.4

We recommend that the Foundation Board expand its conflict of interest policy to formally include action to be taken when conflicts are disclosed.

Recommendation 12.5

We recommend that the following potential conflict of interest areas be addressed in a Memorandum of Understanding between the Foundation and the Office of Health Promotion:

- the Board Chair's role as a Director Addiction Services with the District Health Authorities and related role in applying for Foundation grants on behalf of DHAs; and
- the Foundation's sole employee's reporting relationship to the Director Addiction Services at the Office of Health Promotion when the Director has involvement in grant applications submitted by Addiction Services.

Recommendation 12.6

We recommend the Foundation complete its website to enhance communications and address related concerns reported in the *Brand and Marketing Strategy Report*.

Recommendation 12.7

We recommend the Foundation require progress reports from grant applicants prior to payment of subsequent grant installments.

Recommendation 12.8

We recommend that the Foundation:
- formally approve its draft investment policy; and
- develop a long-term financial plan to address projected grant funding and capital to be maintained.

CROWN AGENCIES AND CORPORATIONS

Municipal Finance Corporation

Pages 210 – 220

13.1 The Corporation is complying with its reporting requirements and is providing timely information to the Minister.

13.2 The Corporation's 2000-01 and 2001-02 Annual Reports were not tabled in the House of Assembly, but the 2001-02 report was available in the Legislative Library.

13.3 We recommended that the Corporation report progress related to its main objective of providing funds at the lowest possible cost.

13.4 The Corporation is complying with requirements of the Municipal Finance Corporation Act and Provincial Finance Act.

13.5 The Corporation has a timely budget process and cash flow projections are prepared on a regular basis. The Corporation prepares monthly financial reports and submits them to the Board of Directors and the Department of Finance.

13.6 Our recommendations to government from this audit are as follows:

Recommendation 13.1

We recommend that the Corporation's Annual Reports be tabled in the House of Assembly on a timely basis.

Recommendation 13.2

We recommend that the Corporation report on its achievements related to the goal and priority of providing funds at the lowest possible cost.

Recommendation 13.3

We recommend that all policies related to the Corporation be documented and accumulated in a comprehensive reference source.

Recommendation 13.4

We recommend the business plan be updated to reflect the current practices of the Corporation.

Nova Scotia Innovation Corporation

Pages 221 - 234

14.1 The creation of In*NOVA*corp in 1994 consolidated several technology organizations owned by the Province, including the Nova Scotia Research Foundation Corporation. Responsibility for the Nova Scotia First Fund was also transferred to the Corporation.

14.2 We concluded that many of the audit criteria, used to assess whether our overall audit objectives were achieved, were met, particularly with respect to the governance and accountability functions. However, corporate policies and procedures require updating to better reflect the changed strategy and focus of In*NOVA*corp.

14.3 Terms of reference for the Investment Review Committee should be documented and approved by the Board of Directors. The terms of reference should include authorization limits, meeting protocols and roles and responsibilities. Terms of reference should also detail the nature and frequency of reporting to the Board.

14.4 The Board should identify and approve roles and responsibilities for Officers of the Corporation. Authorization limits should also be established.

14.5 Senior management should review and update the program administration guidelines for the Nova Scotia First Fund. These guidelines should include investment eligibility criteria, and should clearly differentiate the policies related to uncommitted funds. The guidelines should be approved by the Board as it has overall responsibility for administration of the Fund.

14.6 A system to monitor, measure and report on performance should be developed. Focus should be given to those areas which are critical to the success of, or represent a significant risk to, In*NOVA*corp's mission.

14.7 Criteria upon which bonuses are based should be clearly defined and communicated to the employees in question. There should be formal, documented evaluations against these criteria to support the determination of bonuses.

14.8 Any costs associated with the investment or services provided to In*NOVA*corp's subsidiary, The Decision Point, should be included in In*NOVA*corp's operating results.

14.9 In*NOVA*corp should update the documentation of its procurement policies and procedures. These policies and procedures should be compatible with Provincial requirements, detail when a competitive process is required, and address the use of purchasing cards.

14.10 Our recommendations to government from this audit are as follows:

Recommendation 14.1

We recommend that terms of reference for the Investment Review Committee should be documented and approved by the Board of Directors. The terms of reference should include authorization limits, meeting protocols and roles and responsibilities, as well as formalize the reporting process between the Committee and the Board.

Recommendation 14.2

We recommend that the Board identify roles and responsibilities for officers of the Corporation. Authorization limits should also be established.

Recommendation 14.3

We recommend that a system to monitor, measure and report on performance be developed. Focus should be given to those areas which are critical to the success of, or represent a significant risk to, In*NOVA*corp.

Recommendation 14.4

We recommend that criteria upon which bonuses are to be based should be clearly defined and communicated to the eligible employees. Evaluation against these criteria should be documented.

Recommendation 14.5

We recommend that any costs associated with the investment or services provided to In*NOVA*corp's subsidiary, The Decision Point, be separately disclosed in In*NOVA*corp's operating results.

Recommendation 14.6

We recommend that senior management review the program administration guidelines for the Nova Scotia First Fund. These guidelines should include investment eligibility criteria, and should clearly differentiate the policies related to uncommitted funds. The guidelines should be approved by the Board as it has overall responsibility for administration of the Fund.

Recommendation 14.7

We recommend that In*NOVA*corp update the documentation for its procurement policies and procedures. These policies and procedures should be compatible with Provincial requirements, detail when a competitive process is required, and address the use of purchasing cards.

Review of Financial Statements and Management Letters

Pages 235 – 239

15.1 Section 17 of the Auditor General Act permits this Office to conduct additional reviews of those entities where financial statements are reported on by private sector auditors. This chapter of our Report contains comments on our review of the results of private sector audits, as well as comments on audits performed by this Office.

15.2 The Provincial Finance Act requires that financial statements for government business enterprises and government service organizations be submitted to the

Minister of Finance by June 30 following the fiscal year end (usually March 31). A number of entities, including trust funds, were not fully successful in providing audited financial statements by June 30.

OTHER AUDIT OBSERVATIONS

Additional Appropriations

Pages 242 – 245

16.1 Page A17 of the March 31, 2003 Public Accounts Volume 1 identified additional appropriations required for the year ended March 31, 2003 of $69,591,000. This additional spending authority is yet to be approved by Order in Council. Under Section 28(3) of the Provincial Finance Act as amended May 30, 2002, OIC approval now needs to be obtained *"no later than ninety days after tabling of the Public Accounts"*.

16.2 Additional appropriations totaling $205,019,000 for fiscal year 2002 were approved by OIC #2003-25 in January 2003.

16.3 The timing of the OIC approvals impairs the effective control by and accountability to the House of Assembly for expenditures in excess of original spending authority limits.

Cash and Other Losses

Pages 246 – 248

17.1 The losses reported to us for the year ended March 31, 2003 totaled $71,785; consisting of cash losses of $11,154, property losses estimated at $215,176 and recoveries of $154,545.

Travel Expenses

Pages 249 – 251

18.1 Systems and controls surrounding travel expense claims are adequate to ensure expenses are accurately recorded, reviewed and properly approved. Opportunities for improvements were noted.

REPORT of the
AUDITOR GENERAL

MVNIT HAEC ET ALTERA VINCIT

REPORT of the AUDITOR GENERAL to the NOVA SCOTIA HOUSE OF ASSEMBLY

2003

Honourable Murray Scott
Speaker
House of Assembly

Sir:

I have the honour to submit herewith my Report to the House of Assembly for the year ended March 31, 2003, to be laid before the House in accordance with Section 9A(2) of the Auditor General Act.

Respectfully submitted

E R Salmon

E. Roy Salmon, FCA
Auditor General

Halifax, Nova Scotia
November 28, 2003

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Introduction

1 OVERVIEW AND SIGNIFICANT ISSUES

INTRODUCTION

1.1 I am pleased to submit my Annual Report to the House of Assembly. It outlines the results of audit work and other activities conducted during 2003. I remain committed to providing information to the members of the House of Assembly, particularly to those who serve on the Public Accounts Committee, to assist them in meeting their responsibility to hold the government to account for the management of public funds.

1.2 We adhere to the standards established and promulgated by the Canadian Institute of Chartered Accountants which are the benchmarks for public accountants and legislative auditors when performing audit and assurance work.

1.3 I issued a report on February 26, 2003 which included the 2002 Performance Report and 2003 Business Plan of the Office of the Auditor General.

1.4 I also issued an additional report on November 14, 2003 following the release of the Public Accounts the previous day. I had issued an unqualified opinion on the financial statements but raised issues with regard to the completeness and comparability of other financial reporting by government.

1.5 Once again, this Annual Report contains specific recommendations for improvements that should be considered by government and it is my intention to follow up on these.

1.6 The government continues to make progress towards achieving fiscal stability, which is demonstrated by improvements in the quality of the financial statements through implementation of generally accepted accounting principles. That is a major step forward but, as outlined throughout this Report, weaknesses in control, management processes, communication and information reporting continue to exist.

AUDIT MANDATE

1.7 In addition to presenting this Annual Report, as mentioned above, I am required to provide an opinion on the Province's financial statements and my report was dated July 15, 2003 and included in the Public Accounts which were released by government on November 13, 2003.

1.8 The Auditor General Act also requires me to review and report upon the estimates of revenue included in the budget. My report thereon was included in the Budget Address tabled by the Minister of Finance on April 3, 2003.

1.9 The Act also permits me to table a maximum of two additional reports during a year and, as stated earlier, I did table two.

ACCOUNTABILITY AND FINANCIAL REPORTING

1.10 Chapter 2 of this Report provides further detail on the matters related to the Province's financial statements, revenue estimates and other financial disclosure issues. It notes and acknowledges improvements that have been made while also commenting on deficiencies in some financial disclosures.

1.11 It also discusses efforts at Accountability Reporting, an initiative that we strongly support. The government's Annual Accountability Report is scheduled for release by the December 31, 2003 statutory deadline.

1.12 During the course of our audit of the Province's financial statements, we examined various control procedures and systems and the chapter outlines selected opportunities for improvement. We will be providing more detailed observations to government in a separate management letter to be issued in late 2003 or early 2004.

FINANCE - CENTRAL FINANCIAL MANAGEMENT SYSTEM/SAP

1.13 This chapter discusses the implementation of the corporate financial management system across government and outlines a number of areas that require improvement. It has been in service for six years and major upgrades have been made.

COMMUNITY SERVICES - HOUSING SERVICES

1.14 This audit focussed on the Housing Services Division of the Department of Community Services and we concluded that, generally, its planning, budgeting and accountability practices were satisfactory. We also concluded that there is adequate control over funds spent and received by its social housing subsidy and home repair programs.

EDUCATION - ACCOUNTABILITY OF SCHOOL BOARDS

1.15 This chapter discusses the efforts of the Department of Education to improve the accountability of school boards and implement the recommendations from special reviews of Chignecto-Central Regional School Board and Strait Regional School Board. We urge that continued priority be assigned to these initiatives and recommendations, and that the Department develop a new funding formula for school boards.

EDUCATION - UNIVERSITIES

1.16 As a result of suspected fraud at Collège de l'Acadie, the Minister of Education requested the Office of the Auditor General to conduct an audit of the general audit and control environments in the universities. Overall, the audits did not reveal any significant weaknesses in controls. However, we are concerned with the existence of significant pension plan deficits at three universities and an operating deficit at one. We also note the need for improvement in annual business planning. The chapter also includes responses to the audit from three universities.

ENERGY - OIL AND GAS EXPLORATION AND PRODUCTION

1.17 This audit concluded that the Department has appropriate systems for planning and performance management, although reporting on performance outcomes could be improved. We also believe more attention should be given to royalty auditing.

HEALTH - IWK HEALTH CENTRE

1.18 The Centre has reasonable systems for planning, monitoring and controlling operations. However, we made recommendations for improvements in certain areas including the need for better monitoring of cost saving initiatives.

HEALTH - LONG-TERM CARE

1.19 This audit noted that the Department of Health had made significant progress in business planning and budgeting for facilities, the applicant financial assessment process and accumulation of wait list information. There continue to be significant fiscal challenges in this program. We have recommended improvements to a number of areas including the need for new legislation and regulations.

HEALTH - PAYMENTS TO PHYSICIANS

1.20 The claims payment process appears to be well established and all claims tested complied with legislation and the Agreement between the Province and the Medical Society. However, we recommended that the Department of Health ensure that annual audits of the contracted administrator (Atlantic Blue Cross Care) are performed by an independent third party.

JUSTICE - COURT SERVICES

1.21 This division of the Department of Justice has adequate procedures in place to ensure resources used in the court system are properly managed, and proper controls are in place with regard to collection of fines.

OFFICE OF HEALTH PROMOTION - NOVA SCOTIA GAMING FOUNDATION

1.22 On March 2003, the Board of Directors of the Foundation wrote to our Office to request a review of operations and suggestions for items to be included in a Memorandum of Understanding with the Office of Health Promotion. The review noted that the Board and staff have progressed in many areas since 1999, including expanding activities and operations. The relationship between the Foundation and the Office of Health Promotion requires clarification. The Foundation does not have a long-term financial plan which addresses the fund balance to be maintained or projected grant funding. We recommend that such a plan be prepared.

MUNICIPAL FINANCE CORPORATION

1.23 This audit examined accountability issues in the Corporation and concluded that all legislated reporting requirements are met. We also determined that the Corporation meets other legislated requirements and has adequate control over its financial operations.

NOVA SCOTIA INNOVATION CORPORATION

1.24 This audit focussed on key governance and accountability arrangements and made a number of recommendations for improvements.

TRAVEL EXPENSES

1.25 Travel expenses were audited in four major departments, all of which have adequate systems of control, although opportunities for improvements were noted. In particular, we recommended that the Department of Finance and the Public Service Commission undertake an audit of travel across government to assess the effectiveness of the travel policy.

CONCLUDING REMARKS

1.26 Although this Report contains many positive findings, there are always areas for improvement and I urge government to act on the recommendations we have made. I realize that resources are limited and many public servants are stretched. In particular, many of the issues in the Department of Finance arise because, even though senior staff there (namely the Controller and Director of Accounting) are extremely competent, they are overworked. I acknowledge their efforts.

1.27 In closing, I wish to acknowledge the efforts of my own staff. The contents of this Report, the additional Reports, as well as others speak for themselves.

Government-Wide Issues

2 ACCOUNTABILITY AND FINANCIAL REPORTING

BACKGROUND

2.1 Adequate information and reporting on government's plans and performance (i.e., results or outcomes) are required, so Members of the Legislative Assembly (MLAs) can hold government accountable. In its simplest terms, accountability means the obligation to answer for an assigned responsibility.

2.2 An accountability relationship involves at least two parties, one who allocates or assigns responsibility, and one who accepts it, with an understanding to report upon results or outcomes. Exhibit 2.1 on page 26 provides a relatively simple two-dimensional overview of the key elements of an accountability relationship, including the role the audit function serves within it. This overview or model can be used when considering accountability at various levels within Provincial operations. For example:

- government's accountability to the House of Assembly;
- departmental and other public sector entities' accountability to government;
- deputy head's or board's accountability to a Minister; and
- management's accountability to a deputy head.

2.3 Exhibit 2.2 on page 26 provides an overview of the accountability organization with respect to the Provincial public sector. It is not intended to present all parties or relationships involved, but rather to emphasize the various levels that exist and that accountability to the public is relevant at all levels.

2.4 The purpose of this Chapter is to provide summary comments and observations on the quality of government's accountability information and reporting available to the MLAs, including the Province's annual financial statements.

RESULTS IN BRIEF

2.5 The following are our principal observations this year.

- Government released its *Annual Accountability Report* for the year ended March 31, 2002 on December 20, 2002. Reporting for the 2002-03 year is due by December 31, 2003.

- The Auditor General's Report on the 2003-04 revenue estimates, required under Section 9B of the Auditor General Act, was tabled in the House on April 3, 2003 along with the *Nova Scotia Budget*.

- The Province's March 31, 2003 consolidated financial statements were released November 13, 2003 as part of the *Public Accounts*. The financial statements were audited by our Office and the opinion was unqualified. On November 14, 2003, we released a summary report on the Province's March 31, 2003 financial statements and other financial reporting practices. A separate management letter on more detailed findings and observations is to be issued to government in December 2003.

- New regulatory and other standards for control and reporting will require significant and sustained attention by government.

- Reporting to the House on the planning for and performance of various retirement and other post-employment benefit plans should be enhanced. The related costs and obligations for these benefit plans are affected by a number of market and other risks over which government has limited control.

- Reporting of compensation arrangements for executive and senior management positions in all Provincial public sector entities should, as a minimum, meet the requirements that publicly-traded corporations have had to comply with for many years. Current reporting practices are incomplete and untimely.

SCOPE

2.6 The following represents a summary of our ongoing monitoring, review and consideration of various matters or issues relating to the status of action taken or planned by government to improve the quality of accountability information and reporting to the House of Assembly. In addition to considering the status of accountability-related initiatives undertaken by government, we provide commentary on selected matters, including the Province's summary consolidated financial statements.

PRINCIPAL FINDINGS

2.7 Our principal findings and summary comments on general or specific matters relating to the quality of accountability information and reporting by government to the House are presented under the following headings.

- Annual Accountability Report
- Government's Revenue Estimates
- Province's Consolidated Financial Statements
- Pensions and Other Retirement Benefits

- Control of Electronic Information
- Other Matters

Annual Accountability Report

2.8 For the House of Assembly to hold government to account, and for government to hold departments and agencies accountable, there is a standard framework in place. Government, through the Treasury and Policy Board, requires departments and agencies to prepare annual business plans and to report on outcomes or performance against plans. The Provincial Finance Act includes statutory requirements for government to provide such information and reporting to the House.

2.9 The effective implementation and continued evolution of such information and reporting mechanisms represent a significant challenge, requiring a sustained commitment by government. It is important for MLAs to be provided sufficient, appropriate information on the government's progress towards its targets for program service and delivery levels. How such information or reporting is presented to MLAs, and used by them as part of the parliamentary process to hold government to account, will have a significant impact on its effectiveness.

2.10 The government of Nova Scotia released its second report in response to the requirement under Section 83 of the Provincial Finance Act. The *Annual Accountability Report* for 2001-02 was issued on December 20, 2002 and reports performance against the spring 2001 planning document *The Course Ahead for the fiscal year 2001-02 - The Government Business Plan*. Government departments were also required to prepare individual accountability reports for 2001-02, and make them available through the government's website.

2.11 Government has indicated that its *Annual Accountability Report* for 2002-03 will be released prior to the December 31, 2003 statutory deadline.

2.12 In addition to the above required reporting, government has (each August) released a report on the status of action taken against the various promises made by its party during the 1999 election campaign. This reporting, although discretionary (i.e., not required by statute or government policy directive), is an additional element in the information available to hold government accountable.

Government's Revenue Estimates

2.13 The Auditor General's Report under Section 9B of the Auditor General Act on the 2003-04 Revenue Estimates was tabled in the House on April 3, 2003 along with the supporting information for the 2003-04 *Nova Scotia Budget*. Exhibit 2.3 on page 27 is a copy of the Auditor General's Report on the 2003-04 Revenue Estimates.

2.14 Exhibits 2.3(a) and 2.3(b) on pages 28 and 30 respectively are letters issued after the conclusion of our review of the 2003-04 revenue estimates. They provide summary observations and comments on matters regarding the 2003-04 revenue estimates and the tabling of the Auditor General's Report thereon.

Province's Consolidated Financial Statements

2.15 The Members of the Legislative Assembly (and the public) require financial information and reporting of the Province's financial position and results – both plans and performance – on a complete, understandable and timely basis. The use of generally accepted accounting principles (GAAP) as a basis of accounting provides an authoritative foundation or source upon which government can both choose and defend its accounting policy decisions.

2.16 The government released the Province's March 31, 2003 consolidated financial statements on November 13, 2003 as part of Volume I of the *Public Accounts*. The Auditor General's Report on the statements required under Section 9 of the Auditor General Act was unqualified, and is reproduced in Exhibit 2.4 on page 31.

2.17 Based upon the audit procedures completed, we concluded that the March 31, 2003 consolidated financial statements, which are the responsibility of the Minister of Finance on behalf of the government of Nova Scotia, present fairly, in all material respects, the financial position of the Province as at that date and the results of its operations, changes in net direct debt and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles for the public sector.

2.18 While auditing the March 31, 2003 statements, various findings and observations were noted. A summary report on such matters was released on November 14, 2003. Further comments and observations from that audit work follow. As in our prior audit, a detailed management letter will be issued to Finance, likely in December 2003.

2.19 Compliance with GAAP - Nova Scotians should recognize and have reason to be proud of the progress that has been made in the past five years through government's implementation of GAAP for purposes of the Province's annual financial statements. The implementation of GAAP as the basis of government's financial reporting, most notably its annual consolidated financial statements, has allowed Nova Scotia to move from the bottom of the pack, as it relates to Canadian provincial government financial statement reporting, to that of a leader.

2.20 However, it is likely that there will be additional challenges or difficulties for government in its efforts to comply with GAAP. GAAP is not static. There will be additional requirements for government to implement and these may place additional pressure on the statutory requirement for government to plan for and report balanced annual results.

2.21 The government, with Finance's leadership, needs to continue monitoring the Public Sector Accounting Board's initiatives, as well as relevant accounting recommendations from the Canadian Institute of Chartered Accountants (CICA) and any international recommendations, in order to ensure adjustments necessary to government's financial planning, budgeting and reporting are taken into account and implemented on a timely and effective basis.

2.22 As a result of a number of large corporate failures in North America and internationally, accounting and auditing standards and practices are being subject to significant review, update and adjustment. Most notably, the Sarbanes-Oxley Act in the U.S. has resulted in the development of significant new Securities and Exchange Commission (SEC) filing requirements. The collateral impacts on standards and practices in Canada are yet to be fully determined. However, there is reason to believe new challenges will be put on an already-burdened financial management and control staff within government. The government now needs to ensure that all its public financial information and reporting are prepared and presented in a manner that meets certain fundamental attributes.

2.23 Control systems and processes - It is in the Province's best interest for government to have control systems and processes that support the optimal utilization of public funds and resources, while effectively mitigating associated risks. Government and public service management are responsible for ensuring there are adequate controls in place and that they operate effectively.

2.24 As part of the audit of the Province's annual financial statements, internal controls were reviewed only to the extent necessary under Canadian generally accepted auditing standards to establish a basis for determining the audit coverage necessary to express an opinion on those statements. The audit work was not designed to determine whether internal controls are adequate for management's purposes and will not necessarily disclose all conditions requiring attention by management.

2.25 While conducting the 2003 financial statement audit, areas were identified where internal controls should be strengthened or operating improvements could be achieved. Certain matters identified during the current year have implications which warrant government's attention. These matters will be discussed with government management staff as part of post-audit review and reporting meetings and, if appropriate, reported upon more formally in the management letter referred to previously. At this time, the following summary observations are provided.

- The Provincial Finance Act assigns responsibility for selection of accounting policies to the Minister and Deputy Minister of Finance. In addition, it assigns responsibility for systems and controls to Finance. In this regard, it is important to note that while the Act assigns responsibilities, it does not provide any direction as to whether the accounting policies or systems and controls should be selected or implemented in a manner consistent with established best practices or expectations.

- This year, as in the past, we noted that Finance's government accounting staff often had to deal with identified accounting matters on a reactive, after-the-fact, basis. The information flow to government accounting on significant financial transactions or decisions across government should be improved so accounting policy considerations can be effectively dealt with on a more timely and proactive basis.

Again this year, a number of Provincial entities missed the June 30th deadline to provide financial statements and other information to Finance. Chapter 15 of this Report on page 235 includes a list of entities that missed the statutory deadline.

Recommendation 2.1

We recommend that government take necessary steps to ensure all entities covered by the Provincial Finance Act meet the June 30 deadline for financial statements to be provided to Finance.

- In early 2003, government lost its senior, experienced treasury executive when the individual took a position in another Provincial government. Subsequent to that individual's departure, Finance was reorganized and the senior executive's responsibilities were split between the Assistant Deputy Minister, the Controller and a new Executive Director of Pension and Investments position. While this supports better segregation of duties and improved analysis of budget impacts by Finance senior management, the responsibilities of the senior treasury executive have now been allocated to public servants with significantly less treasury-related experience.

- The reporting relationship and positioning of the Corporate Information Systems (CIS) division within Finance (i.e., reporting to the Controller) does not reflect the current significance of that function's roles and responsibilities for providing information services and support for SAP to the broader public sector in the Province. The function's reporting relationship should reflect its importance to the overall systems and control of the broader Provincial public sector, and the government's plans and intentions with respect to the role of SAP.

- Serious concerns, in relation to best practices, have been identified in the general and environmental control activities of the CIS group's management of SAP central security and control-related functions (see Chapter 3 on page 34).

  Appropriate arrangements need to be made for an independent third party service audit of the SAP functions, performed by the CIS division and central government, for the broader Provincial public sector. The results of such an annual audit should be made available to the governance, management and audit functions of the various Provincial public sector entities (i.e., including school boards, Regional Housing Authorities, municipalities and District Health Authorities in the future), in order to adequately support them in the performance of their various roles.

- There need to be formal standards or a framework for management and staff within the Provincial public sector to use as a reference when designing, implementing or assessing the appropriate level of control. New U.S. SEC regulatory reporting requirements will represent significant challenges for government as well as the Office of the Auditor General. The Province is an SEC registrant, and as a foreign issuer may find itself having to meet many of the same reporting requirements now being faced by U.S. public companies.

- In prior Reports, we suggested that the accounting policies and practices for Federal-Provincial revenue streams be subject to review. Experiences on this year's audit of the Province's statements have provided more support for such a review.

Recommendation 2.2

We again recommend that policies and practices, used during the budgeting and accounting processes for recognition and measurement of Provincial taxes and other revenue transfers from the Federal government, be reviewed.

Recommendation 2.3

We recommend that the management/audit trail, supporting the accounting for Provincial taxes and other revenue transfers from the Federal government, be improved.

Pensions and Other Retirement Benefits

2.26 Introduction - The purpose of the following paragraphs is to provide an introduction to aspects of the administration and accounting for pension and other retirement benefits. During the upcoming year, in addition to further exploring and clarifying the governance arrangements surrounding these obligations, this Office will review and report on additional matters with respect to pension and other retirement obligations.

2.27 The Province has fully adopted the recommendations of the Public Sector Accounting Board (PSAB) with respect to accounting for pensions and other retirement benefits. The most recent recommendations were issued in September 2001 after a number of years of research and development.

2.28 Pension and other retirement benefits are a significant liability to the Province, second only to unmatured debt. On a consolidated basis, the accrued liability as at March 31, 2003 was $1.3 billion (2002 - $1.5 billion). Interest costs related to retirement benefits (and included in debt servicing costs on the statement of operations) totaled $65 million in 2003 ($78 million in 2002). These interest costs were offset by a retirement benefit expense credit (or pension valuation adjustment, as it is described in the statement of operations) of $152 million in 2003 ($245 million in 2002).

2.29 Note 6 to the Province's March 31, 2003 consolidated financial statements describes the various pension and retirement benefit obligations included in the liability. The Note provides further details of the financial activity throughout the year, summarized between activity in pension plans, and activity in other benefit plans. By far, the most significant of the pension plans are the Public Service Superannuation Plan and the Teachers Pension Plan (PSSP and TPP). The most significant 'other' benefits are those related to retirement health benefits provided to members of the TPP and PSSP.

2.30 Governance arrangements - Section 6(2) of the *Teachers Pension Act* designates the Minister of Finance as trustee of the Fund established under the Act. The Act further notes that the Minister of Finance has general supervision and management of the Act, and is responsible for its day-to-day administration.

2.31 The Teachers Pension Plan is further governed by an agreement between the Province and the Nova Scotia Teachers Union (NSTU) which establishes, among other things, a Teachers' Pension Board, and an Investment Advisory Committee. The agreement notes that the Teachers' Pension Board "*... will be responsible for matters including Plan administration, including the determination of benefit entitlement ....*" Our limited review of the governance arrangements of the TPP for this year's Report did not include determining the ongoing role of the Teachers' Pension Board.

2.32 The *Public Service Superannuation Act* designates the Department of Finance as administrator of that Act under Section 3(1). Although the PSSP Act does not specify that the Minister of Finance is trustee of the Superannuation Fund, Note 7 to the financial statements included in Volume 1 of the March 31, 2003 Public Accounts indicates the Fund is held in trust by the Minister of Finance.

2.33 The daily administration of these Funds is performed by management and staff of the Pension Services Group (PSG) at the Department of Finance. Responsibilities of the PSG include accounting for contributions and benefit payments, preparation of financial and other reports (including the annual report of each Plan as required under legislation), and liaison with active and retired members of the Plans.

2.34 Daily management of the investment portfolio is the responsibility of a division of the Department of Finance - the Investment Management Division. The Division has prepared a *Statement of Investment Policies and Goals* which details, among other items, the following:

- *"The Funds' assets will be managed on an ongoing basis, with the primary objective of maximizing returns at an acceptable rate of risk.*

- *The basic goal is to ensure that the assets of the Funds, together with expected contributions, shall be invested in a prudent manner so as to meet the liabilities of the Funds."*

2.35 Governance arrangements with respect to retirement health benefits for TPP and PSSP retirees are not specified in legislation. A review of these arrangements is being undertaken by this Office, and results are to be reported in the 2004 Report of the Auditor General.

2.36 Funding position - Both the TPP and the PSSP are considered 'funded' plans because each has related assets, and because each requires annual contributions to a trust by both employers and employees. The majority of these assets are in the form of equities, fixed income securities (e.g., bonds), money market investments, and real estate. At March 31, 2003, the fair market value of these assets was $2.5 billion for the PSSP (March 31, 2002 - $2.9 billion) and $3.2 billion for the TPP (March 31, 2002 - $ 3.6 billion).

2.37 With the adoption of a new accounting policy for the year ended March 31, 2003, pension assets are recorded in the Province's financial statements at a 'smoothed' market value for accounting purposes rather than the fair market value basis used previously. At March 31, 2003, there is a difference of $1.2 billion between the fair market value and the smoothed value. This will be amortized to operating results over an average period of approximately 15 years.

2.38 While TPP and PSSP are 'funded' plans, there are no assets set aside to support the liability associated with retirement health benefits and certain other pension obligations. These liabilities are therefore unfunded. (Note that the term 'unfunded' can also refer to any situation where assets are not sufficient to cover the related obligation in a plan. This is the case for TPP; PSSP continues to be in an accounting surplus position for the year ended March 31, 2003.)

2.39 Contribution levels related to TPP and PSSP for both employers and employees are specified in respective legislation. Generally, contributions by employees are matched by government as the employer. As noted in paragraph 2.35 above, there is no legislation directly governing retirement health benefits, as these benefits were negotiated through labour contracts. Contributions for these benefits are in the form of premiums collected. For PSSP related health benefits, these premiums are shared 65%/35% between the government and retirees, respectively. For TPP related health benefits, the government bears 100% of the total cost of the premiums. Exhibit 2.5 provides a summary analysis of these obligations of $518 million as at March 31, 2003.

Control of Electronic Information

2.40 The growth in the collection of electronic personal information and concerns about the protection of privacy led the Federal government to enact the *Personal Information Protection and Electronic Documents Act* (PIPEDA). Additionally, the European Union restricts trade with jurisdictions that lack privacy legislation similar to their own. The core of PIPEDA was the adoption of Canadian Standards Association's (CSA) *Model Code for the Protection of Personal Information* (see Exhibit 2.6).

2.41 PIPEDA does not apply to Provincial governments. In Nova Scotia, the *Freedom of Information and Protection of Privacy Act* (FOIPOP) is the primary governing legislation regarding the protection of personal information in government. A number of other statutes, for example, the Hospital Act and the Social Assistance Act, govern particular departments, with specific rules concerning privacy of particular information.

2.42 These acts all speak of personal information in general terms, not distinguishing between paper records and electronic information. While the legal rules regarding paper records and electronic information are substantially identical, the methods used to protect them are significantly different. In this regard, it is government's responsibility to ensure that adequate security and control policies and practices are in place and functioning.

2.43 In fall 2002, we conducted a survey of the information technology sections of the government's Corporate Service Units (CSUs). We identified approximately 100 computer systems that might contain some personal information, half of which appear to contain significant personal information.

2.44 In 2003 we had intended to follow up on the survey results to more precisely identify the nature and extent of personal information stored on government computer systems but were unable to complete the follow-up due to resource demands of other audit projects. We now plan to conduct this follow-up work in 2004 to confirm which systems have significant personal information, and then examine the related controls.

Other Matters

2.45 The comments in this section relate to a variety of matters of an accountability or control perspective that may be of interest to the House of Assembly.

2.46 In order to effectively fulfill the Auditor General's mandate under Sections 9 and 9B of the Auditor General Act (i.e., audit of annual financial statements and review of annual revenue estimates), it is necessary for the Auditor General to have access to information on decisions made by the Executive Council, Treasury and Policy Board and other government committees. During 2003, discussions continued with government senior management on how best to effectively achieve the required access by the Auditor General while at the same time preserving the confidentiality of the associated information. Temporary arrangements have been put in place which avoid any scope limitation in the Auditor General's review under the mandates noted above. The Auditor General was able to access and review information necessary in order to fulfill the mandates of sections 9 and 9B.

2.47 Some of the entities which are part of the public sector within the Province use accounting policies which are not in accordance with GAAP. For example, school boards and municipalities are required to prepare their annual financial statements on a disclosed basis of accounting consistent with accounting manuals issued under the direction of their respective Ministers. Recent changes to professional auditing standards will place significant reporting limitations on such entities' auditors in the future. Generally accepted auditing standards (GAAS) will restrict the auditor's ability to provide an unqualified report on statements prepared on a basis other than GAAP. As a result, it would be appropriate for government, with involvement of the Department of Finance and other pertinent departments, to ensure that any direction provided to such entities requires the application of generally accepted accounting principles appropriate in the respective circumstances. This issue, as it relates to school boards, is discussed further in Chapter 5.

2.48 Disclosure of compensation arrangements for executive and senior management positions in all Provincial public sector entities should, as a minimum, meet the requirements that publicly-traded corporations have had to comply with for many years. Such reporting on a timely basis could be helpful to the House in its role to hold government and various agencies accountable, by highlighting certain matters. For example:

- bonus arrangements for deputy heads and other senior officials; and
- car allowances integrated with base salary resulting in higher pensionable earnings.

Recommendation 2.4

We recommend government implement a requirement for annual compensation reporting by all Provincial public sector entities for executive and senior management positions.

CONCLUDING REMARKS

2.49 An effective accountability framework should provide or result in an appropriate balance of information and reports to the House of Assembly on the plans and performance of government overall and individual departments or agencies, both from a financial and program delivery or service perspective. The goal is better information and reports, not just more.

2.50 The government's implementation, in order to comply with generally accepted accounting principles, of new and pending accounting recommendations from the Canadian Institute of Chartered Accountants and its Public Sector Accounting Board will likely continue to put significant pressure on government's fiscal planning.

2.51 Since the Province makes use of U.S. and International capital markets for debt, derivatives and other treasury purposes, government needs to consider new and evolving regulatory and reporting requirements, including those related to reporting on controls.

Exhibit 2.1 Accountability Relationships

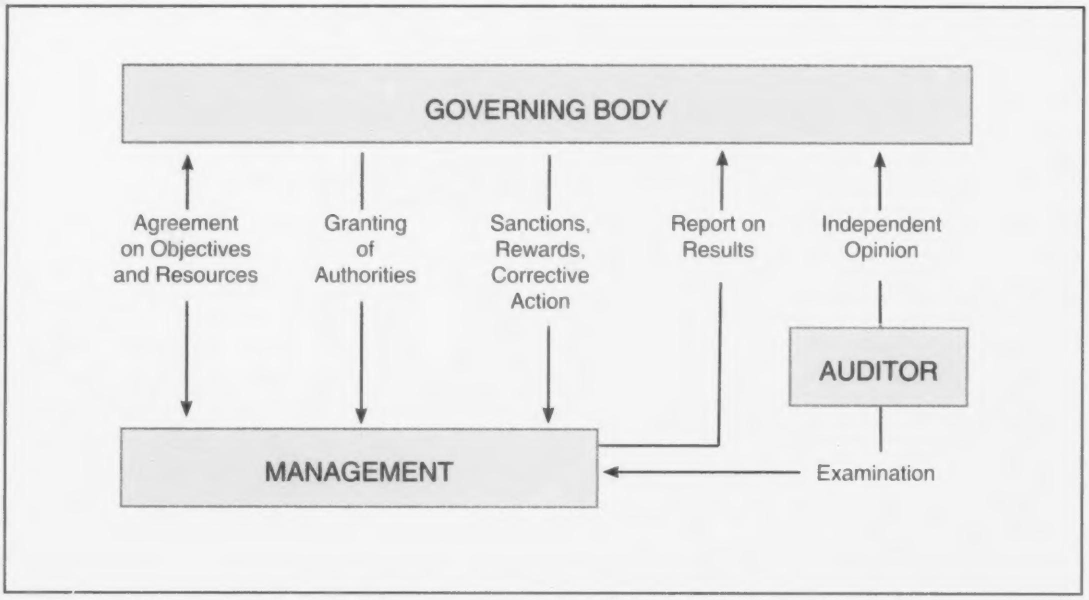
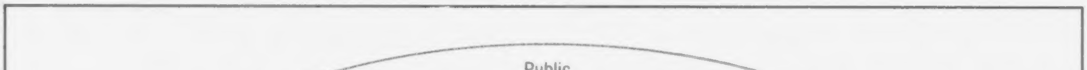


Exhibit 2.2 Overview of Accountability Organization



Report of the Auditor General to the House of Assembly on the Estimates of Revenue for the Fiscal Year Ending March 31, 2004 used in the preparation of the April 3, 2003 Budget Address

Exhibit 2.3

I am required by Section 9B of the Auditor General Act to provide an opinion on the reasonableness of the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly.

The estimates of revenue for the fiscal year ended March 31, 2004 (the 2003-04 revenue estimates) are the responsibility of the Department of Finance and have been prepared by departmental management using assumptions with an effective date of March 6, 2003. I have examined the support provided by the department for the assumptions, and the preparation and presentation of the 2003-04 revenue estimates of $5,628,516,000 for total ordinary revenue. My opinion does not cover the budget address, the 2002-2003 forecast, the 2003-04 spending estimates, sinking fund earnings, nor the recoveries, user fees or other income netted for annual appropriation purposes. My examination was made in accordance with the applicable Auditing Guideline issued by the Canadian Institute of Chartered Accountants. I have no responsibility to update this report for events and circumstances occurring after the date of my report.

Commencing with the fiscal year ending March 31, 1999, the Government implemented consolidated financial statement reporting in accordance with Canadian generally accepted accounting principles for the public sector. Consistent with prior years, the 2003-04 revenue estimates have been presented including the total ordinary revenue of the Consolidated Fund established under the provisions of the Provincial Finance Act. As a result, sinking fund earnings and revenue of certain government organizations reported as revenue in the Province's consolidated financial statements are excluded from the 2003-04 revenue estimate for total ordinary revenue, but included elsewhere in the 2003-04 estimates, and have not been included in my examination.

The personal income taxes (PIT) revenue for 2003-04 was estimated based on national level taxable income and provincial share information determined by the federal government. The extent to which the economic and other assumptions used by the federal government to determine this information agrees to or differs from the Nova Scotia government's assumptions for 2003-04 has not been determined. As a result, the impact of any differences on the PIT estimate can not be adequately assessed.

Except for the effect of adjustments, if any, which might have been necessary as a result of the matters discussed in the preceding paragraphs, in my opinion,

- As at the date of this report, the assumptions used by the Department are suitably supported and consistent with the plans of Government, as described to us by departmental management, and provide a reasonable basis for the 2003-04 revenue estimates; and

- The 2003-04 revenue estimates as presented reflect fairly such assumptions.

Since the 2003-04 revenue estimates are based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material. Accordingly, although I consider, except for the matters discussed above, the 2003-04 revenue estimates to be reasonable, I express no opinion as to whether they will be achieved.

(original signed by)
E. Roy Salmon, FCA
Auditor General

Halifax, Nova Scotia
April 2, 2003

Exhibit 2.3(a)

April 2, 2003

Honourable Neil J. LeBlanc
Minister of Finance
Province of Nova Scotia
Halifax, Nova Scotia

Dear Honourable Neil J. LeBlanc:

I am required by Section 9B of the Auditor General Act to provide an opinion on the reasonableness of the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly.

My report to the House of Assembly on the estimates of revenue for the fiscal year 2003-04 (i.e., the 2003-04 revenue estimates) used in the preparation of your April 3, 2003 budget address was provided to your senior departmental management today for printing purposes. Attached is the official signed copy of my report.

As per earlier correspondence, my report relates only to the 2003-04 revenue estimates of $5,628,516,000 for total ordinary revenue. Once outstanding matters have been addressed, as in the past, my report is to be published and can be tabled along with other material provided to the House with your budget address.

If my report on the 2003-04 revenue estimates is to be used or referred to in any other publications or communications by the Government or its representatives, I should be provided with sufficient advance notice and afforded an opportunity to review the nature and content of such publications or communications.

Further to my report, various observations identified during this year's review will be communicated to your departmental management in the near future as part of a post-assignment process. In the meantime, I would like to draw your attention to the following summary comments.

- Summary information available at the time of our review supports the proposed accounting for Nova Scotia's share of new federal funding – CHST Supplement, Health Reform Fund, Diagnostic/Medical Equipment – announced in February by the Federal government. However, when more detailed information and formal support for these funding arrangements becomes available the accounting for them will need to be more fully assessed.

- The base case for government's economic assumptions used in the preparation of the 2003-04 revenue estimates was developed by your department's economic policy staff without full knowledge of significant aspects of government's tax, spending and fiscal plans for 2003-04 and beyond. Certain, but not all, of these assumptions were approved by Executive Council on March 6, 2003. It is unclear what the impact of fuller knowledge of these plans would have been on your staff's economic modeling and resulting base case assumptions. Our discussions in this regard with your senior staff indicated that while including these plans more fully in the economic modeling may have resulted in higher values being output, other (some external national and international) factors or considerations would have offset those changes.

At this time, I would also like to draw your attention to the following matters, previously brought to your departmental management's s attention, which may bear directly on the level of government's compliance with generally accepted accounting principles (GAAP).

It is our understanding that the financial accounting and reporting practices used in the March 31, 2002 consolidated financial statements for the net proceeds of SYSCO disposal activities and the retirement health benefit obligations are to be carried forward for the 2002-03 and 2003-04 fiscal periods. We are not aware of any GAAP provisions that would support;

- the net proceeds of SYSCO disposal activities (e.g., sale of scrap) being included in the determination of the governments annual surplus or deficit, or

- the costs and obligations of government's retirement health benefit programs being excluded from the determination of the government's annual surplus or deficit.

As a result, it is our view, the planned accounting and reporting for these items is not in accordance with GAAP.

In closing, the cooperation and assistance of departmental management and staff at Finance and across government is acknowledged and appreciated. If you have any questions or wish to discuss my report on the 2003-04 revenue estimates or the contents of this letter, please contact me.

Yours truly,

(original signed by)

E. R. Salmon, FCA
Auditor General

c. Mr. Howard Windsor - Deputy Minister

Exhibit 2.3(b)

April 8, 2003

Honourable Murray Scott
Speaker
House of Assembly
Province of Nova Scotia
Halifax, Nova Scotia

Dear Honourable Murray Scott:

I am required by Section 9B of the Auditor General Act to provide an opinion on the reasonableness of the Estimates of Revenue used in the preparation of the Annual Budget Address of the Minister of Finance to the House of Assembly.

On April 2, 2003, my Report to the House of Assembly on the Estimates of Revenue for the fiscal year 2003-04 (i.e., the 2003-04 Revenue Estimates) used in the preparation of the Minister of Finance's April 3, 2003 Budget Address was provided to the Department of Finance's senior management for printing purposes.

During the printing of the Budget Address, certain adjustments were made to the presentation of my report, one of which resulted in my opinion being combined with another paragraph. Further, the copy of my signature published in the Budget Address was not the one provided on the copy of my official Report.

Upon noticing the adjustments, the Department of Finance was requested to correct the Report on its website and in hard copies subsequently distributed. They were also asked to have the correct version of my Report tabled in the House of Assembly as soon as possible. Finance has indicated that this latter aspect of our request will not be done.

As a result, the Members of the House of Assembly do not yet have a copy of my Report on the 2003-04 Revenue Estimates as it was intended to be presented to them. Therefore, attached is a copy of my Report under Section 9B of the Auditor General Act on the 2003-04 Revenue Estimates used in the preparation of the Minister of Finance's April 3, 2003 Budget Address.

This presents an unusual and unfortunate situation, but in my view the lack of separation between my opinion on the Revenue Estimates and the rest of my Report is a matter of some professional significance. As a result, I request that my Report be tabled in its intended form.

Yours truly,

(original signed by)

E. Roy Salmon, FCA
Auditor General

Auditor's Report

Exhibit 2.4

To the Members of the Legislative Assembly
of Nova Scotia

I have audited the consolidated statement of financial position of the Province of Nova Scotia as at March 31, 2003 and the consolidated statements of operations, change in net direct debt and cash flow for the year then ended. These statements are the responsibility of the Government of Nova Scotia, represented by the Minister of Finance. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Province of Nova Scotia as at March 31, 2003 and the results of its operations, changes in net direct debt and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles for the public sector.

E. Roy Salmon, FCA
Auditor General

Halifax, Nova Scotia
July 15, 2003

Exhibit 2.5

Estimated Additional Retirement Benefit(1) Obligations to be Accounted for under Revised Accounting Standard PS3250

	Actuarial Obligation March 31/03	% Allocation of Premiums		Actuarial Estimates of Current Service Cost 2002-03	Actual Interest Cost 2002-03
		Employer	Pensioner		
Public Service Superannuation Plan	$170,177,549	65%	35%	$ 5,240,000	$ 9,911,000
Members' Retiring Allowance Act	1,091,052	65%	35%	59,200	70,095
Teachers' Pension Plan	326,375,829	100%	0%	9,821,000	19,890,000
Sydney Steel Corporation Superannuation Plans	20,373,000	100%(2)	0%	-	1,056,706
	$ 518,017,430			$ 15,120,200	$ 30,927,801

(1) *Includes health and dental benefits and, for certain Sysco pensioners, life insurance coverage as well.*

(2) *Sysco pensioners contribute a nominal amount each month toward their prescription drug plan. Coverage under this plan ceases at age 65. Life insurance benefits are fully paid by the Province.*

The Canadian Standards Association's Model Code for the Protection of Personal Information.

Exhibit 2.6

This Code lays out ten principles for the protection of personal information:

1. Accountability: An organization is responsible for personal information under its control and shall designate an individual or individuals who are accountable for the organization's compliance with the following principles.

2. Indentifying Purposes: The purposes for which personal information is collected shall be identified by the organization at or before the time the information is collected.

3. Consent: The knowledge and consent of the individual are required for the collection, use or disclosure of personal information, except when inappropriate.

4. Limiting Collection: The collection of personal information shall be limited to that which is necessary for the purposes identified by the organization. Information shall be collected by fair and lawful means.

5. Limiting Use, Disclosure, and Retention: Personal information shall not be used or disclosed for purposes other than those for which it was collected, except with the consent of the individual or as required by law. Personal information shall be retained only as long as necessary for fulfillment of those purposes.

6. Accuracy: Personal information shall be as accurate, complete, and up-to-date as is necessary for the purposes for which it is to be used.

7. Safeguards: Personal information shall be protected by security safeguards appropriate to the sensitivity of the information.

8. Openness: An organization shall make readily available to individuals specific information about its policies and practices relating to the management of personal information.

9. Individual Access: Upon request, an individual shall be informed of the existence, use and disclosure of his or her personal information and shall be given access to that information. An individual shall be able to challenge the accuracy and completeness of the information and have it amended as appropriate.

10. Challenging Compliance: An individual shall be able to address a challenge concerning compliance with the above principles to the designated individual or individuals for the organization's compliance.

3 CENTRAL FINANCIAL MANAGEMENT SYSTEM/SAP

BACKGROUND

3.1 The Corporate Financial Management System (CFMS) is a composite collection of several management information systems that form the central core of the government's financial management system. The most significant component of CFMS is SAP R/3. It is an enterprise resource planning system (ERP) which contains a variety of functional modules. CFMS has a variety of feeder systems used by departments which pass data to SAP R/3 either electronically through interfaces or through manually-created journal entries.

3.2 SAP R/3 was implemented by the Department of Finance on April 1, 1997. It has now been in service for over six years. There have been major upgrades both to the software and to the hardware infrastructure. In addition, SAP has been rolled out to other broader public sector entities and will continue to be implemented in more of these entities over the next several years.

3.3 The Corporate Information Systems (CIS) division of the Department of Finance is responsible for the overall management, maintenance and support of SAP for core government as well as for certain public sector entities. The latter is achieved through service level agreements.

3.4 The SAP Project Office, created in 2002 as part of the Office of Economic Development, is responsible for the strategic deployment of SAP across the Provincial public sector.

RESULTS IN BRIEF

3.5 The following are our principal observations.

- The Corporate Information Systems division does not have a formal planning process. There is no strategic plan for the division. There are certain components of operational planning in place, however they are not integrated and do not address all areas of the division's responsibilities. Finance's Business Plan makes no mention of the CIS division as a core business area or in its listing of priorities.

- SAP security was last audited in 1998. Issues identified this year point to the need for a comprehensive security and control audit to be completed, particularly since there are plans to implement the human resources module and electronic payments to vendors. For example:

  - There are no formally documented policies and standards for CFMS security or for the correction and transport system.
  - There has been inappropriate deployment of powerful security access privileges and there is a need for stronger management and control of user logon accounts.
  - There is no formal disaster recovery plan to guide recovery, and no business continuity plan to enable the continued provision of essential services, if a disaster or other significant interruption of computer services was to occur.
  - There were significant departures from the described control practices in the correction and transport system.

- Service level agreements in place to define roles, responsibilities and service levels between CIS and broader public sector entities have not been reviewed by legal counsel and certain additional important clauses need to be included.

AUDIT SCOPE

3.6 Due to the magnitude and complexities of CFMS/SAP, our examination has been planned as a multi-year project. This year we focused on the overall management and control framework, as well as the control practices in selected areas.

3.7 Our overall objectives of the assignment this year were to review the control practices in place surrounding SAP including:

- information technology planning
- information systems acquisition, development and maintenance
- computer operations and information systems support
- information technology security
- business continuity planning and information technology recovery

3.8 Specific detailed control objectives for each of these areas were derived from the Canadian Institute of Chartered Accountants' *Information Technology Control Guidelines* (ITCG). Further, the specific and detailed criteria we used to assess each objective were also derived from ITCG. These objectives and criteria were discussed with and agreed to by management.

PRINCIPAL FINDINGS

Planning

3.9 The Corporate Information Systems division is responsible for the overall management, maintenance and support of the SAP System. The division is essentially broken down into three operational areas - BASIS Support (including security), ABAP Programming and Functional Management. In the spring of 2003, the division was further expanded to include the HRMS Support Group. The division currently employs approximately 35 staff and the Director reports to the Controller of the Province.

3.10 In terms of services, the division not only manages and supports SAP R/3 for the core government but also, through a series of service level agreements (SLA's), provides similar management and support to the following broader public sector entities:

- 7 school boards
- 7 Regional Housing Authorities
- 6 Municipalities

3.11 These entities are running independent instances of SAP directly from the government's SAP servers and related infrastructure. There are also general plans for future support arrangements to be provided by the division through SLAs to the Nova Scotia Public Service Commission and the District Health Authorities.

3.12 Considering the recent and rapid growth of the CIS division's responsibility to multiple and independent clients over an expanding array of SAP application modules, we expected to find an extensive and formalized planning structure for the division. When we enquired about the nature and extent of planning, we found that there is no formalized planning for the division in terms of a strategic plan. Certain components of operational planning, are in place, however, they have not been integrated and do not address all areas of management's responsibilities. In addition, there are no divisional performance standards and measurable performance targets defined which could be used to report upon the performance results of the division.

3.13 The lack of formalized planning is of significant concern. The CIS division is responsible for managing, maintaining and supporting the primary financial management system of government and has had its responsibility extended to provide similar services and support to other, broader public sector entities. SAP is a highly technical and complex array of system and functional modules requiring a wide range of specialized technical skills. To continue managing in this very complex environment without a formalized planning process significantly increases the risk of inefficient operations, missed opportunities, decisions based upon incomplete information, inability to react on a timely basis to important issues and the inability to measure and report upon performance. The complexity also increases the need for well-defined control standards and practices.

Recommendation 3.1

We recommend that senior management institute a formalized planning process for the Corporate Information Systems division so as to establish a clear vision and direction as well as a formalized process to set out the necessary operational requirements for the delivery of services to its various clients.

Department of Finance Business Plan

3.14 The Corporate Information Systems division has significant management and support responsibilities not only to the Department but to the entire Provincial corporate entity. We reviewed Finance's 2003-2004 Business Plan. There is no mention of the CIS division in the 'Core Business Areas' or in the 'Priorities for 2003/04' sections of the plan.

Policies, Standards and Practices

3.15 We determined that there are few formalized policies and standards related to either the operational use of CFMS/SAP by general users, or internal policies and standards for the CIS division.

3.16 In particular, there are two areas where formally-defined policies and standards are most important and we have been informed that they are not in place.

- Security - SAP has a very complex security architecture and in such an environment a formal, implemented security policy would provide a framework to enhance the efficiency and effectiveness of managing the security function. Several of the matters discussed in other sections of this Report identify weaknesses in control that would probably not exist if strong and well-defined security practices were in place.

- Change control process - In SAP this process is called correction and transport. Although a system was described to us detailing the procedures to be followed when effecting system changes, our examination of a sample of such changes revealed that the system was not being followed. The specific results of this testing are covered in another section of this Report.

Recommendation 3.2

We recommend that priority be given to developing and implementing formal detailed policies, standards and practices for security as well as for correction and transport.

Recommendation 3.3

We recommend that management conduct a formal review of all Corporate Information Systems division operational responsibilities and determine the overall nature and extent of policies and standards that should be in place to promote a control conscious environment aligned with industry standard information technology control practices.

Need for a Detailed Security Audit

3.17 The security component of SAP is very complex and had not been audited since 1998. A new user in SAP has, by default, no access rights. Specific access rights are derived from the combination of profiles, authorization objects, authorizations and transaction codes assigned to each user. These assignments are based on the specific operational tasks required to carry out the user's responsibilities.

3.18 Our audit focused on a relatively high level examination of security. We looked for security policies and practices and we focused on the use of powerful security profiles and authorization objects. Due to resource limitations, we did not extend our coverage to a detailed assessment of segregation of duties.

3.19 We encountered situations that raise serious concerns as to whether security has been given an appropriate level of consideration in managing CFMS/SAP. These matters have been reported separately to management and are not detailed here due to the confidential nature.

3.20 Based upon the nature and significance of these security issues, we believe that government should commission a full and independent audit of all aspects of SAP security as deployed by the Province. Further, government should consider establishing a project to develop or otherwise acquire security 'best practices' in an SAP environment. This could become a very strong management tool in helping to ensure that appropriate controls are in place and effectively maintained.

3.21 The need for a security and control audit is urgent. Implementation processes are well underway for the human resource module as well as for electronic payments to vendors. Before either of these areas are formally implemented, there must be a fully established and extensive definition and deployment of appropriate security practices, including formalized, regular monitoring of compliance. Once e-business, including electronic funds transfer, and web access are in place the risks of unauthorized access to the system and the unauthorized transfer of funds increase significantly. Only a strong, well-managed security and control system can reduce these risks to an acceptable level.

Recommendation 3.4

We recommend that government commission a full and independent audit of SAP security and control as soon as possible.

Recommendation 3.5

Further, government should consider establishing a project to develop or otherwise acquire security and control 'best practices' in an SAP environment.

Inappropriate Use of Powerful Access Rights

3.22 Most computer application systems provide for the granting of powerful user access rights to all aspects of the systems. This is usually referred to as a 'Super User' and is intended to facilitate initial setup of a system as well as to act as an emergency user when significant unforeseen circumstances occur. Industry standards and practices strongly suggest that the granting of such powerful access rights be highly controlled. They should only be used for specific instances and in each case with the express permission of senior management.

3.23 The most powerful security profile available in SAP is called SAP_ALL. If a user is assigned this profile, the result is unrestricted access to all components of SAP. This means that a user having this profile can do absolutely anything in SAP ranging from system configuration settings, modification of program code and table contents, and user management – all the way down to detailed transaction levels in each of the functional modules such as general ledger and accounts payable.

3.24 With regards to SAP_ALL, SAP security documentation states specifically

> *"This profile contains all SAP authorizations, meaning that a user with this profile can perform all tasks in the SAP system. You should therefore not assign this authorization profile to any of your users. We recommend that you maintain only one user with this profile. You should keep the password of this user secret (store it in a safe) and only use it in emergencies."*

3.25 During the course of our examination we encountered a number of situations relative to the use of the SAP_ALL profile which represent significant control risks. These matters have been reported separately to management and are not discussed here due to the confidential nature.

3.26 In addition to 'super-user' security profiles such as SAP_ALL, there are also several powerful authorization objects that should be closely controlled. Our review of certain of these indicated that they have been deployed in the production environment and, as a result, indicated that they are not being closely controlled with due consideration of the risks.

Recommendation 3.6

We recommend that the SAP_ALL profile should not be assigned to any staff or user ID in the production environment including BASIS staff. As a maximum there should only be one user ID established with this profile and it should be highly controlled and used only for emergency purposes.

Recommendation 3.7

We recommend that management review the deployment of all powerful security profiles and authorization objects. This review should focus on the appropriateness of such deployments and examine the associated risks as well as the adequacy of the controls established to mitigate these risks.

Analysis of System Users

3.27 At the time of our audit there were approximately 1,090 registered system users for core government. Through the use of analytic system reports we were able to determine:

- 351 user IDs had not been used in more than 180 days (6 months);
- 82 user IDs have never been used;
- 54 users have multiple user IDs; and
- a few user IDs exist for former departmental or government employees who have transferred to other departments or terminated employment with the government.

Recommendation 3.8

We recommend that a formal security policy be established including a component that specifically requires the following:

- Once an ID goes 180 days without use it should be locked and the user contacted to determine if the ID is still required.
- There should be an annual renewal of all user IDs to pick up changes in user responsibilities, movement of users between departments and termination of users.

Access to Change Key Global Accounting Settings

3.28 As part of our review of security access we utilized certain system-generated analytic reports to determine how many users had update capabilities for key global accounting settings including the chart of accounts, accounting periods and company codes. We determined that there were:

- 269 users who could update the Chart of Accounts;
- 48 users who could update Accounting Periods; and
- 48 users who could update Company Codes.

3.29 Only a select few people, probably in Finance's Government Accounting division, or the CIS division for Company Codes, should have the ability to change these key settings.

3.30 We followed up with security and functional managers to determine why so many users would have the ability to update these key global accounting settings and found the following.

- Chart of Accounts - The security manager found that there had been an error dating back to system implementation in 1997 whereby 221 of the 269 users with this access should not have had it. This access was immediately removed from these 221 users. The reasons for the remaining 48 users to have this access have not been reviewed.

- Accounting periods - Functional managers selected one of these users and tested the access capabilities and determined that, although the user had the system authorization, the user did not have the additional transaction code necessary to perform this task and therefore cannot actually update. However, only one user was examined and the other 47 have not been checked to determine if the same applies to them.

- Company codes - None of these have been checked to determine if the same scenario applies.

3.31 Management has indicated that it plans to create a special security role for government accounting which will contain these access rights and that any requests for such rights will require the approval of the Director of Government Accounting.

Recommendation 3.9

We recommend that all users listed as having the capability of updating key global accounting settings be examined to determine why they need these capabilities, and to assess the associated risks.

Use of Roles for Access Security

3.32 The SAP security architecture provides for the optional use of 'roles' as a means of creating and maintaining user access rights. Through the use of defined roles, security administration becomes more efficient and provides better consistency over the assignment of users' access rights. It also provides a framework to more easily establish and maintain an appropriate segregation of duties.

3.33 Roles are collections of authorizations and transactions that are executable by any user who is assigned that role. Multiple roles can also be assigned. An example of this role-based approach to security would be where the specific access requirements for a job function are defined, such as an accounts payable clerk. That role could then be universally applied to all accounts payable clerks across government with a limitation specified for them to perform the role in only their home departments.

3.34 We determined that the current approach to implementing security by the Corporate Information Systems division is not role-based. The current approach has evolved from the original implementation of SAP in 1997, when role-based security was not available. The functions of each individual SAP user were identified and the required authorizations were assigned to each. This made for a very complex and lengthy process for creating and maintaining system users.

3.35 We have been informed that management is now considering a conversion to the role-based approach, however, there are organizational challenges that need to be identified and addressed before this can be done.

Recommendation 3.10

We recommend that management make a determination of the issues and challenges in converting to a role-based approach to implementation of access security and develop a detailed transition plan for the conversion.

Disaster Recovery Plans

3.36 The overall purpose of a disaster recovery plan is to provide for an orderly and timely restoration of services in the event of an unexpected interruption through the failure of one or more key infrastructure components. Given the complexities and interdependencies of today's information technology infrastructures, the preparation of a disaster recovery plan represents a major task requiring the full support of senior management to commit qualified staff resources and to assign a high enough priority so that the plan will be completed in a thorough and timely fashion. Implementation of the plan may also require a commitment of resources such as redundancy of hardware or provision of an alternate site. There is also formal commitment required to ensure that the plan is tested on a periodic basis and that appropriate mechanisms are established to keep it up to date.

3.37 By virtue of overall responsibilities for the management, maintenance and support of the CFMS/SAP infrastructure and services, the Corporate Information Systems division is specifically responsible for the preparation and testing of appropriate and thorough disaster recovery plans for the CFMS/SAP infrastructure.

3.38 We understand that when the SAP servers and related infrastructure were physically housed in the Provincial Building, there was a disaster recovery plan in place. However, effective July 2002, the SAP servers and related infrastructure components were moved to the EDS Data Centre on Young St. in Halifax. Later, in 2002 there was a major change to the infrastructure where a completely different manufacturer's product was installed.

3.39 Upon the move to the EDS facility, the former disaster recovery plan became invalidated due to the significance of the changes. Although a new plan should have been completed to coincide with the move to the EDS facility, this was not done and there is currently no disaster recovery plan to be enacted in the event of failure.

3.40 We understand and appreciate that the CIS division has several significant initiatives underway. However, the requirement for a disaster recovery plan should receive the appropriate level of support and commitment from senior management, since the Province has now gone more than one year without such a plan.

3.41 A recent incident in the building which houses the EDS Data Centre is an example of a situation that could have caused problems. In spring 2003, it was publicly revealed that the building had a problem with mould in the air ventilation system. Although the mould was somewhat toxic, it was removed without shutting down the building. However, had it been a more toxic variety of mould, occupational health and safety regulations could have resulted in the building being closed for a prolonged period. Had this happened, the SAP system would have been shut down and unavailable for an undetermined period. The CIS Division would not have had any plans or arrangements in place to deal with and provide for the orderly resumption of service. The result could have been a prolonged shutdown of the government's financial management system, as well those of the public sector entities supported by the Province.

Recommendation 3.11

We recommend that senior management establish and test a disaster recovery plan as soon as possible.

Recommendation 3.12

We recommend that the SAP Projects Office should ensure that the standard project implementation methodology includes the evaluation of the disaster recovery plan against the business requirements. This evaluation will feed into the update of the business owners' existing Business Continuity Plan.

Business Continuity Plans

3.42 As there is a need for a disaster recovery plan, there is also a corresponding and significant need for business continuity plans. These latter plans are required to identify acceptable levels of services that need to be provided in case of an interruption of service. One potential cause of the interruption of service may be inability to access computer systems.

3.43 The primary responsibility for business continuity planning is not with the Corporate Information Systems division. It is the responsibility of the business owners' of a service to ensure there are business continuity plans in place, regardless of the cause of the interruption of service. There is a corporate responsibility to recognize the importance of business continuity plans and to ensure they are a priority. There was a recommendation to this effect as a result of the Y2K problem.

3.44 Accordingly, this is a matter that should be addressed by the Deputy Ministers' Forum and subsequently Cabinet.

Recommendation 3.13

We recommend the establishment of a policy requiring all departments to have an appropriate business continuity plan, and that this plan be kept up-to-date on an ongoing basis. Further, we recommend the establishment of an initiative to undertake the development and implementation of a corporate business continuity planning process.

Recommendation 3.14

We recommend that in conjunction with the development of a corporate business continuity planning process, that the Business and Technology Advisory Committee (BTAC) should also examine the needs for a corporate disaster recovery planning process, as it relates to the provision of computer services.

Recommendation 3.15

We recommend that the SAP Projects Office should ensure that the standard project implementation methodology should include updating the business continuity plan to reflect the new system.

Service Level Agreements

3.45 The Corporate Information Systems division has entered into formal arrangements with certain broader public sector entities to provide the infrastructure for independent instances of SAP as well as a variety (depending on individual entity needs) of system management and support services. The CIS division charges a fee for these services and has in place a separate service level agreement (SLA) with each of these entities that outlines roles, responsibilities and service levels. All of these agreements are drawn from the same basic template but it is unclear as to whether there has been a review of the agreements from a legal perspective, to ensure that the government is sufficiently and appropriately protected.

3.46 Agreements have been implemented for the following:

- 7 School Boards;
- 7 Regional Housing Authorities; and
- 6 Municipalities

3.47 These entities are running independent instances of SAP directly from the government's SAP servers and related infrastructure. There are also general plans for future support arrangements to be provided by the division through SLAs to the Nova Scotia Public Service Commission and the District Health Authorities.

3.48 We determined that there is no specific mention in the SLAs of each party's responsibility for disaster recovery and business continuity planning. These are important clauses that should have been included.

3.49 We also determined that there is no provision in the agreements for an independent service auditor review and reporting on controls. Such a report would provide assurances to the governing bodies and management of entities using the central SAP infrastructure and services provided by CIS, that sufficient and appropriate controls are in place to provide a secure processing environment. As well, it is likely that the financial statement auditors of the various school boards, municipalities and other entities which are parties to these service level agreements will be approaching the CIS division with information requests concerning the controls in place over the SAP infrastructure.

3.50 As a final matter, we also noted that, although the SLA for the municipalities has been in use for several months, the agreement has not yet been signed. We understood there were plans to have it signed in September 2003. In future, such services should not be provided until the agreements are formally executed.

Recommendation 3.16

We recommend that the current service level agreements should be reviewed by legal counsel.

Recommendation 3.17

We recommend that the agreements contain clauses to specifically address each party's responsibility for disaster recovery and business continuity planning.

Recommendation 3.18

We recommend that government address the need for an annual service auditor review and reporting on the controls surrounding the SAP infrastructure and related Corporate Information Systems services.

Correction and Transport

3.51 Once a computer system is installed, it requires ongoing maintenance to correct discovered errors, to meet changed circumstances or to provide enhancements to meet evolving user needs. Such changes must, of course, be carefully controlled and in the SAP R/3 environment control is achieved through the 'correction and transport system'. This system is also used to make changes to system tables such as the currency exchange table which must be changed on a daily basis. As well, this system moves changes from the SAP development environment to the quality assurance environment and finally into the production environment. The correction and transport system tracks all changes by automatically assigning a control number anytime that any element of SAP is changed. Security access controls should be deployed in a manner to ensure that only key BASIS staff can promote changes through the hierarchy from development to production.

3.52 Our review of the Corporate Information Systems division use of the correction and transport system involved obtaining a description of the system. We then selected a sample of items from the logs of the transport system. We compared the documentation of each sample item to the described system.

3.53 We found that there was inadequate documentation regarding the policies, standards, procedures and practices of the correction and transport system in the CIS division. Our description of the system was obtained verbally through interviews with CIS management and staff, and was supplemented by a listing of procedures conveyed to CIS staff by management.

3.54 When we examined our sample we found the following:

- no two of the sample items were processed in the same way by the staff of CIS;
- most deviated significantly in one or more ways from the described system;
- none of the samples followed the described procedure completely;
- several of the samples had no documentation at all and for most of the rest the quantity and quality of documentation was inadequate; and
- in most cases there was no evidence of approvals.

3.55 A formalized policy and standard practices in this area would help to minimize the risks of unauthorized and/or untested changes being made to systems. Documented and enforced procedures help to provide assurances that controls are in place, encourage compliance and simplify management of change.

3.56 As a final matter, the government operates a problem tracking software called 'Remedy'. This allows computer users who have a problem to contact a 'help desk'. Staff at this desk assign a unique ID number to the complaint and refer it to the appropriate staff for action. The ID numbers are tracked by the Remedy system. Managers can see who has outstanding items and the functional staff can see which task they need to work on. Those staff who prepared adequate documentation did so using the documentation functionality of the Remedy system.

Recommendation 3.19

We recommend that appropriate policies and procedures for using the SAP correction and transport system be designed, documented and implemented.

Recommendation 3.20

We recommend that use of the 'Remedy' system, or an acceptable alternative determined by management, be considered to manage the work flow of the SAP correction and transport system.

CONCLUDING REMARKS

3.57 The Corporate Information Systems division has very significant responsibilities in regards to the management, maintenance and support of SAP which provides the government's core financial management systems. Such responsibilities have been extended to provide similar service functions to several other public sector entities, which are running independent instances of SAP on the SAP infrastructure managed by CIS.

3.58 Government should be concerned with the lack of formalized planning, the absence of policies and standards and the prolonged use of inappropriate security practices within the CIS division.

3.59 Plans are already in process to implement further modules of SAP, including human resources and business warehouse. As well, there is an additional project underway to implement electronic payments to vendors. Concerns identified to date should be fully addressed before such projects are finalized.

3.60 Government needs to take significant measures to ensure that appropriate planning processes are put in place and that detailed policies, standards and controls are developed, particularly in the area of security.

Exhibit 3.1

Nova Scotia Public Sector Deployment of SAP - April 2003

Modules/Entities	Core Government	School Boards	Municipalities	Regional Housing Authorities	District Health Authorities
Financials	I	I	I	X	P
Human Resources	U	U	I	I	P
Materials Management	I	I	I	X	P
Plant Maintenance	I	P	C	X	P
Internet Portals	U	C	C	X	C
Business Warehouse	C	I	X	X	P
Customer Care Service	C	X	U	X	X

I = Implemented
U= Projects Underway
P= Planning Completed
C= Under Consideration
X= No Plan to Implement

Department Audits

4 HOUSING SERVICES

BACKGROUND

4.1 It is widely accepted that housing is a basic human need and is fundamental to personal well-being. Housing that is safe, healthy and affordable is crucial to maintaining healthy and sustainable communities. Accordingly, the government of Nova Scotia has partnered with the Federal government in the provision of housing since the 1960's. In August 2000, the responsibility for the government's housing programs was transferred to the Department of Community Services. Previously, it had been a function of the former Department of Housing and Municipal Affairs.

4.2 The housing programs of the Department of Community Services are administered by its Housing Services Division. Housing Services administers a variety of programs designed to help low to moderate income households maintain or acquire adequate housing. The Division provides grants and loans for home repairs and mortgages to purchase or build modest homes. It provides services in support of the Province's social housing units and subsidies to housing sponsors such as co-operatives and non-profit housing societies providing 9,000 dwelling units. As well, it develops and markets moderately-priced, serviced building lots.

4.3 The Provincial government partners with the Federal government in a significant way in the provision of social housing programs. In 1994, the Province entered into an agreement with the Government of Canada and Canada Mortgage and Housing Corporation (CMHC) to administer residential repair assistance programs. These programs are funded 75% by the Government of Canada through CMHC, and 25% by the Province of Nova Scotia. They are administered by Housing Services Division and provide forgivable loans to enable low and moderate income households to maintain a safe and healthy place to live.

4.4 The Housing Services Division also operates the Nova Scotia Housing Development Corporation. The Corporation owns and manages the Province's social housing assets and accounts for the revenues and costs associated with operation of those assets. It manages approximately 11,650 senior and family social housing units, provides 1,540 housing units under its Rural and Native Housing Program, and provides rental assistance to 800 low income households in private rental accommodations. As well, the Corporation provides direct lending or loan guarantees to qualified housing sponsors which satisfy a housing need, but cannot obtain financing in the private sector. Examples include group homes, nursing homes and assisted living projects. The Corporation has no employees of its own. Its programs are the responsibility of the staff of Housing Services Division.

4.5 The Corporation also enters into and manages certain Federal-Provincial social housing agreements on behalf of the government. In 1997 the Corporation entered into the Social Housing Agreement with CMHC. Under this agreement, CMHC's ownership in Nova Scotian social housing units, as well as the related loan portfolio, were transfered to the Nova Scotia Housing Development Corporation. Annual Federal funding to maintain the housing units was capped at 1995 levels and will follow a pre-defined declining schedule which will expire in 2034. The Department projects that – at current service levels – there will be an accumulated deficit of $230 million by the time this agreement expires unless additional revenues are generated or costs are reduced.

4.6 In September 2002, the Corporation signed the CMHC-Nova Scotia Affordable Housing Program Agreement. It is valued at $37.3 million, half to be provided by the Federal government and half by the Provincial government and its housing partners. The agreement includes funding for the construction and maintenance of rental properties and individual households. It is anticipated that up to 1,500 housing units will be created or renovated as a result of the agreement. In November 2002, construction of the first new affordable housing units in the Province in ten years was commenced in the Town of Middleton.

4.7 The primary Provincial legislation regulating the Department of Community Services' housing programs is the Housing Act and the Housing Development Corporation Act. Services of both the Housing Services Division and the Corporation are provided through four regional offices and seven government-administered housing authorities. The Division has approximately 90 staff. Exhibit 4.2 on page 63 illustrates the organizational structure of the Division.

4.8 Total expenditures for Housing Services in 2002-03 were $137.5 million. Of this amount, $117.2 million was for social housing programs and $12.6 million was for home ownership and repair programs, with the remainder being spent on program administration and operations. $56.3 million was recovered from the Federal government and municipal governments. The Division also had rental revenues of $48.6 million.

4.9 The Housing Development Corporation had total revenues and total expenditures of $124.7 million in 2002-03. At March 31, 2003 the Corporation had total assets of $465.9 million, of which the majority ($379.5 million) was the Province's investment in land and social housing units. As of that date, the Corporation also had outstanding loan and mortgage guarantees to CMHC and private lenders totaling $198.2 million.

RESULTS IN BRIEF

4.10 The following are our principal observations from this audit.

- Strategic and business planning have been performed for the Housing Services Division and the Housing Development Corporation. We observed compliance with government's business planning guidelines. Performance measures have been developed for both the Division and the Corporation. We advised that the Division should develop performance measures for each of its stated priorities.

- Internal and external accountability structures and reporting are appropriate.
- There is a need to update and possibly consolidate the Province's social housing-related legislation. There is a similar need to update Department policies and procedures for social housing programs.
- We observed reasonable systems during our examination of financial management and reporting for social housing programs. The completion of the Department's new computerized property management system should further improve program management.
- Many of the non-government housing sponsors receiving government subsidies, such as co-operatives and non-profit housing societies, are experiencing serious financial difficulties. Department staff monitor the organizations and provide advice. However, we found that the Department does not always get all the information needed from housing sponsors on a timely basis, and Department reviews and building inspections are not occurring as regularly as required.
- We observed weaknesses in the Department's compliance with program requirements for its Residential Rehabilitation Assistance Program. Verification of client income did not always follow guidelines, legal documents were not always correct or complete, and property inspections were not always well-documented.
- Control over the processing and monitoring of recoveries from the Federal government is reasonable.
- The Department has performed or participated in a number of evaluations and studies of its various social housing programs. These exercises are valuable in assessing whether programs are meeting their objectives. The Department has fallen behind in some program evaluations required by Federal-Provincial agreements, but there is a formal plan for performing them.

AUDIT SCOPE

4.11 In August 2003 we completed a broad scope audit of various housing programs at the Department of Community Services. It was conducted in accordance with Section 8 of the Auditor General Act and auditing standards established by the Canadian Institute of Chartered Accountants, and included all tests and other procedures we considered necessary in the circumstances.

4.12 The objectives of this assignment were to assess:

- planning, budgeting, and accountability practices with respect to the Department's Housing Services Division and the Nova Scotia Housing Development Corporation; and

- whether the Department has adequate control over funds spent and received in its social housing subsidy and home repair programs.

4.13 Audit criteria were developed for the assessment of the systems and practices of the Department. The audit criteria were discussed with and accepted as appropriate by senior management of the Department, and are outlined in Exhibit 4.1. The audit consisted of interviews; review of significant plans, reports, studies, and other documents; as well as testing of grant and other control procedures.

4.14 In addition, our Office performs an audit of the financial statements of the Nova Scotia Housing Development Corporation each year.

PRINCIPAL FINDINGS

Planning, Budgeting and Performance Reporting

4.15 Internal accountability structure - The Housing Services Division is comprised of a head office in Halifax and four regional offices located throughout the Province. Each of the regional offices operates under the direction of a Regional Director. There are three other Directors located at head office (Exhibit 4.2). Each of these positions report to the Executive Director of the Division. With the exception of one Director at head office whose responsibilities are changing, each of the Directors has completed an annual accountability statement which has been approved by the Executive Director. These statements outline their duties and responsibilities, and form the basis of the annual performance appraisal process for each individual.

4.16 The Executive Director meets with each Director on a quarterly basis to discuss performance in relation to the accountability statement. Additionally, regular visits are made to each region by the Executive Director to discuss specific regional issues. The Executive Director reports to the Deputy Minister of the Department and has prepared an accountability statement which was approved by the previous Deputy Minister.

4.17 Strategic and business planning - Shortly after the government's housing programs were transferred to the Department of Community Services, staff of the new Housing Services Division undertook a project to develop a vision for the future of housing in Nova Scotia. As part of that project, a number of housing pressures were identified, statements of mission, beliefs and goals were prepared, and a description was provided of how the Province's housing 'landscape' would look in the year 2006 if the Division met all its goals.

4.18 The Division has recently finalized a long-term strategic plan to lead it in the achievement of its vision. We observed from our review of the plan that it addresses all the significant responsibilities of the Division and was developed with significant input from staff of the Housing Services Division, including staff of the Housing Authorities. At the time of our audit, the Division was preparing operational plans to implement components of the strategic plan.

4.19 Government departments and crown corporations are required to prepare annual business plans using guidelines issued by Treasury and Policy Board. We reviewed the 2003-04 business plans for the Department of Community Services and Nova Scotia Housing Development Corporation and concluded that they were prepared in accordance with the guidelines.

4.20 Performance measures - A key component of planning is determining means of measuring success in achieving the objectives of a plan. Senior management indicated that development of performance measures for the achievement of its strategic and annual goals is underway. Some measures have been developed and are presented in the business plans of the Department and the Corporation.

4.21 We reviewed performance measures presented in the Department's 2003-04 business plan which apply to the Housing Services Division, as well as those in the Nova Scotia Housing Development Corporation's 2003-04 business plan. We noted that performance measures relate well to the Department's and Corporation's stated goals. However, the Department's business plan does not provide a measure for each of the Housing Services Division's stated priorities and we suggested expanding performance measures accordingly.

4.22 In addition, we did not see a significant amount of ongoing performance information relating to the occupancy rates in government-owned and non-government social housing units. A study conducted for the Department indicated that occupancy rates in the Cape Breton Regional Municipality were lower than expected due to shifting demographics. We believe it would be useful for management to have occupancy information by housing program and area of the Province to help make decisions with respect to the allocation of resources to areas and programs of greatest need.

4.23 Performance reporting - The Housing Services Division has various means of reporting on performance. Information on the expenses and recoveries of the Division are included in the annual budget and monthly forecasts of the Department of Community Services. Information on the Division's financial performance is provided to the Minister, along with explanations of changes in the forecast of current year expenditures and recoveries, and variances from the previous year's expenditures and recoveries. As well, the staffing levels for the Division are presented along with explanations for variances. The annual Estimates and Public Accounts for the Department, tabled in the House of Assembly, contain information on the financial operations and staffing of the Division.

4.24 At the time of our audit, the most recent Departmental Accountability Report was for the 2001-02 fiscal year. We found that it was prepared in accordance with government guidelines. The report summarizes the Housing Services Division's accomplishments in achieving the priorities described in the 2001-02 business plan of the Department.

4.25 The Nova Scotia Housing Development Corporation reports on its performance to the House of Assembly through its audited financial statements and annual Accountability Report. The financial statements for the 2002-03 fiscal year summarize the operations of the Corporation and Housing Authorities, and include all program expenditures and recoveries under the Social Housing Agreement. The Corporation's latest Accountability Report describes achievements relating to priorities outlined in the 2001-02 business plan of the Corporation.

Program Control

4.26 Legislation and policy - The Department has a broad mandate under the Housing Act and the Housing Development Corporation Act. These Acts provide general authority for all programs administered by the Housing Services Division. We observed there is a need to eliminate sections of the legislation which are no longer relevant and to make changes to reflect the current accountability structure between the Division and the Housing Authorities.

Recommendation 4.1

We recommend the Department work with its Minister, government and the Legislature to update, and possibly consolidate, the Housing Act and Housing Development Corporation Act.

4.27 Many of the program policies and procedures currently being followed are from Division and Housing Authority manuals, policies and procedures used by Canadian Mortgage and Housing Corporation, program training materials, and agreements with housing sponsors. There is a need for updating and consolidation of housing policies and procedures. This is an observation similar to one from a recent study of the Division's home repair programs. The Division is still assessing how it delivers some of its programs and management indicated that the need for consolidated polices and procedures will be addressed after this exercise is completed.

4.28 Program management - An annual budget is prepared for the various grant and subsidy programs as part of the Department's budgeting process. The process involves determining the amount of money available for each program based upon Federal and Provincial subsidies and other sources of revenues and recoveries. More detailed budgets are developed for programs where subsidy payments made to housing sponsors are based upon actual expenditures incurred by the sponsors. We also noted that staff have studied the capital maintenance and improvement needs for government-owned social housing units over the next five years and have prepared a long-range capital budget proposal to address needs.

4.29 We found management receive relevant and sufficient monthly financial reporting to assist in the management of subsidy and grant programs. At the time of our audit, the Division was in the process of developing a new computerized property management system for the Housing Authorities. This project has slowed down some of the regular reporting for certain programs, but overall reporting and control should improve significantly once the system is fully operational.

4.30 A monthly forecast of expenditures and recoveries is prepared. Explanations are provided when variances from budget are identified. A detailed analysis of budget, actual and forecasted expenditures and recoveries is prepared for Division management at least once a year.

4.31 Client eligibility - The Department provides funding to Housing Authorities and subsidies to non-government housing sponsors. Payments are made on a daily basis to the Housing Authorities through the Division's centralized banking system. Payments to housing sponsors are made monthly based upon the amounts specified in sponsor agreements.

4.32 The Department has developed detailed policies and procedures for housing sponsors to follow. They specify how to determine tenant eligibility, select tenants as units become available, verify household income and calculate tenant rents and subsidies. Tenants are required to sign standard-form leases. Tenant income is to be verified again during the lease renewal process and the tenant's rent is to be adjusted according to income. These policies and procedures have been incorporated into formal agreements between the Department and sponsor organizations.

4.33 The Housing Authorities require tenants to complete standard application forms, and use standard forms to calculate tenant income and tenant rents. Housing sponsors, such as co-operatives and non-profit housing societies, have been provided with standard forms.

4.34 Housing sponsor reporting - Year-end financial statements are to be prepared, audited and submitted for each housing sponsor which receives a subsidy from the Department. The housing sponsors are also required to ask their external auditors to express an opinion on the calculation and verification of tenant income and the calculation of tenant rents.

4.35 Organizations which receive payments under the rent supplement program are an exception to this requirement because they are only providing individual rental units at agreed upon rents. We also found that the 2001-02 financial statements for the Rural and Native Housing Program were not audited, but the 2002-03 statements were. This area of operation is being merged into the Housing Authorities and, accordingly, will be audited in future years as part of the financial statement audits of the Housing Development Corporation and the Housing Authorities.

4.36 Financial ratios and other performance measures are useful in assessing the reasonableness of expenditures incurred and revenues received by housing sponsors. The Department calculates financial ratios and obtains explanations for significant variances for one housing program we examined. While financial ratios may on occasion be calculated and analyzed for other programs, there is no requirement that this be done.

Recommendation 4.2

We recommend Housing Services Division develop and monitor financial ratios and other performance measures for each of the various housing sponsors subsidized by the Department.

4.37 Monitoring of housing sponsors - The Department has a formal agreement with each housing sponsor that receives a subsidy from the government. The agreements lay out various requirements that housing sponsors must fulfill, such as keeping accurate and complete records, maintaining dwelling units in good condition, and the minimum number of units which must be available for income-tested occupants. Department staff are responsible for monitoring the activities and financial condition of housing sponsors, as well as providing assistance and advice. Housing sponsors are also subject to property inspections by the Department. The right to enter and inspect housing sponsor property and to examine records is specified in the housing sponsor agreements.

4.38 Monitoring of housing sponsors may include review of annual budgets, audited financial statements and information returns filed. Department staff may examine details of the Replacement Reserve and Subsidy Surplus funds required to be maintained by housing sponsors. Reviews may also examine financial and administrative practices of housing sponsors to ensure compliance with terms of sponsor agreements, and look at the calculation and verification of client incomes and calculation of rents by housing sponsors.

4.39 We found that reviews were only conducted on a regular basis for the Rural and Native Housing Program. According to policy, reviews are to be completed on co-operatives and non-profit housing organizations every three years, but this cycle is not being achieved. Such reviews are generally only being performed when housing sponsors encounter problems.

4.40 Property inspections determine the physical condition of buildings. The requirement for building inspections varies among programs. In cases where there is a requirement for periodic inspection of housing sponsor properties we found that inspections were generally not being completed within the inspection cycles established and inspection documentation was not always complete.

Recommendation 4.3

We recommend that the Department develop a formal, comprehensive system for conducting reviews and property inspections of housing sponsors. Policies concerning the selection, performance, quality control and follow-up of reviews and inspections should be documented.

4.41 Housing sponsors are required to submit various documents to the Division on a regular basis. We observed instances where housing sponsors had not submitted financial statements and delays in Division staff review of those financial statements that were submitted. Minimal review and analysis are performed on financial statements received and there is minimal documentation of communications with housing sponsors after a review to discuss issues and problems noted. We also observed instances where annual project data reports and auditors' confirmations concerning the calculation and review of tenants' income and calculation of tenants' rents were not submitted to the Division. Management informed us that obtaining required information from some housing sponsors is very difficult. They have to be reminded frequently and in some cases may have to be warned that funding will be suspended.

4.42 We also understand that many housing sponsors have incurred operating losses, working capital shortages and excessive debt in order to undertake needed repairs. Housing sponsors are required to make yearly payments into a Replacement Reserve fund to ensure sufficient funds for ongoing maintenance and repairs to properties. We noted instances where housing sponsors had either not made yearly payments or had delayed making the payment. There were also cases where housing sponsors had received funds under other housing grant programs because there was insufficient money in Replacement Reserve funds to pay for needed repairs. Both situations illustrate the financial difficulties being faced by some housing sponsors. Division staff work with individual organizations to help resolve such issues, but we found project files do not always adequately document the difficulties and the remedial measures being taken.

4.43 The rents charged by housing sponsors are to be at the low end of market rents, or at least at rates which provide for the viablity of the housing sponsor. We found that there is inadequate documentation in Housing Services Division files to indicate the analysis undertaken by staff to monitor market rents, and we found that the Division is not regularly monitoring rents charged by housing sponsors to ensure they are reasonable.

Recommendation 4.4

We recommend the Department improve its files for the monitoring of housing sponsors. The Department should also monitor rents charged by housing sponsors and assess them for reasonableness in comparison to market rents.

4.44 Residential Rehabilitation Assistance Program - The Residential Rehabilitation Assistance Program (RRAP) is a Federal-Provincial program providing forgivable loans for housing repairs to ensure minimum health and safety standards are met. Exhibit 4.3 describes the various types of housing eligible for funding under the program.

4.45 The program is administered by the Housing Services Division. The income of applicants must be reviewed and verified by Division staff to ensue it does not exceed program limits. Based on our tests, the verification of income is not as rigorous as it should be. We noted instances where applicants' incomes were not calculated in accordance with program guidelines, and instances where applications were approved even though income exceeded income limits.

4.46 We noted instances where documentation supplied by applicants to support funding requests was inadequate. Inspections are to be performed to ensure all required repairs have been completed. We found that the quality of documentation to support the findings of inspections varied. In some cases it was difficult to determine if inspections had been performed and, if they had been, whether the work carried out by the contractor was to the satisfaction of the inspector.

4.47 Promissory notes and mortgage documents are prepared to ensure the Department has adequate security if the ongoing terms and conditions for a forgivable loan are not met. We noted instances where promissory notes were not completed properly or were for an incorrect amount. We also observed an instance where a signed mortgage document was not prepared, even though repairs had been completed.

Recommendation 4.5

We recommend the Division develop quality assurance procedures to ensure all Residential Rehabilitation Assistance Program requirements are being met.

4.48 Federal-Provincial agreements - The Department has entered into agreements with Canada Mortgage and Housing Corporation for the administration of grant and subsidy programs. We examined the monitoring of payments received under the agreements and found the process to be appropriate.

4.49 The maximum amounts claimable from the Federal government are specified in the agreements. Actual recoveries are compared to budgeted amounts during the preparation of the Division's monthly forecasts. The Division prepares yearly claims which are audited by a public accounting firm. Division staff review and prepare a written response to the management letter submitted by the accounting firm. The audited claims are submitted to CMHC for review. A letter is sent by CMHC to the Department outlining any issues they have identified. Housing Services Division staff are responsible for ensuring these issues are resolved.

4.50 Program evaluation - Program evaluations play a valuable role in assessing whether program objectives are met. The Department participated in a Canada-wide evaluation of the Residential Rehabilitation Assistance Program undertaken by Canada Mortgage and Housing Corporation in 2002. This evaluation was a requirement of a Federal-Provincial agreement. The study concluded that the program met its objective of enabling low-income households to improve the conditions of their housing to meet minimum health and safety standards. The evaluation also found that the program improved housing accessibility for low-income households with disabilities.

4.51 The Department also participated in a Canada-wide evaluation of the Co-operative Housing Program undertaken by CMHC in 2002. Co-operative housing is intended to provide housing to lower and moderate income households. The authors of the evaluation concluded households are being provided with affordable housing, though some households are paying high shelter costs. The housing stock of some co-operatives requires significant repairs and many co-operatives have insufficient reserves to cover the cost of needed repairs. Some co-operatives are in financial difficulty due to issues such as market conditions, the condition of housing stock and management factors. As described in paragraph 4.42, we noted similar issues during our examination of programs involving housing sponsors.

4.52 The Department is required to evaluate all housing subsidy programs funded under the Social Housing Agreement every five years. Evaluations were not completed in 2002-03 as required under the Agreement. However, the Department's 2003-04 business plan indicates that it intends to develop an evaluation framework during the year and management noted that program evaluations will be performed in subsequent years.

4.53 In addition to the evaluations mentioned above, the Department recently completed two studies related to the delivery of programs providing funding for home repairs. One study observed that these programs have allowed low-income households to maintain and improve housing and that there is a continuing need to provide the programs. It recommended that program terms and conditions be standardized and some grant programs be consolidated. The other study noted that there is a need to standardize the inspection process, and that benefits could be achieved through greater use of technology by inspection staff. At the time of our audit, Division management were reviewing the studies and developing an action plan to address the issues identified.

4.54 The Housing Services Division has also prepared a document entitled Nova Scotia Housing Research Framework. The document identifies potential research themes according to Divisional goals, and specifies five specific priorities for research by the Department.

CONCLUDING REMARKS

4.55 Based on our audit, the planning, budgeting and accountability practices of the Department of Community Services with respect to the Housing Services Division and the Nova Scotia Housing Development Corporation are satisfactory.

4.56 We also concluded that the Department has adequate control over funds spent and received by its social housing subsidy and home repair programs. However, improvements could be made in file documentation, monitoring and inspections relating to housing sponsors. The Residential Rehabilitation Assistance Program could be strengthened with better documentation, as well as tighter adherence to program eligibility and other requirements.

Exhibit 4.1

Audit Criteria

Audit criteria are reasonable and attainable standards of performance and control, against which the adequacy of systems and practices can be assessed. They relate to the audit objectives developed for an assignment and are used to design the detailed audit tests and procedures.

The following criteria were used in our audit of housing programs at the Department of Community Services:

- Planning, Budgeting and Accountability - Responsibilities and accountabilities with respect to housing programs should be formally defined and communicated. There should be regular strategic, operational and financial planning performed. Where possible, goals should be outcome oriented and designed in a manner to make success in achieving them measurable. There should be a current business plan which complies with the government's planning and budgeting framework. There should be accurate budgeted costs and recoveries of housing programs. There should be appropriate and timely reporting to the Minister and the House of Assembly on the performance of housing programs.
- Control of Housing Programs - In most circumstances, sufficient program and financial information should be obtained before the subsidies of housing sponsors are determined. Standardized goals, service level standards and performance expectations should be agreed to between the Division and the sponsors. There should be regular and timely assessment of sponsors' performance in meeting agreed upon goals, service level standards and performance expectations. There should be systems to ensure housing grants are only made to applicants who are eligible to receive funding. The performance of housing programs should be regularly monitored and evaluated. There should be appropriate monitoring and reporting on the operation of Federal-Provincial cost shared agreements.

Organizational Chart - Housing Services Division

Exhibit 4.2

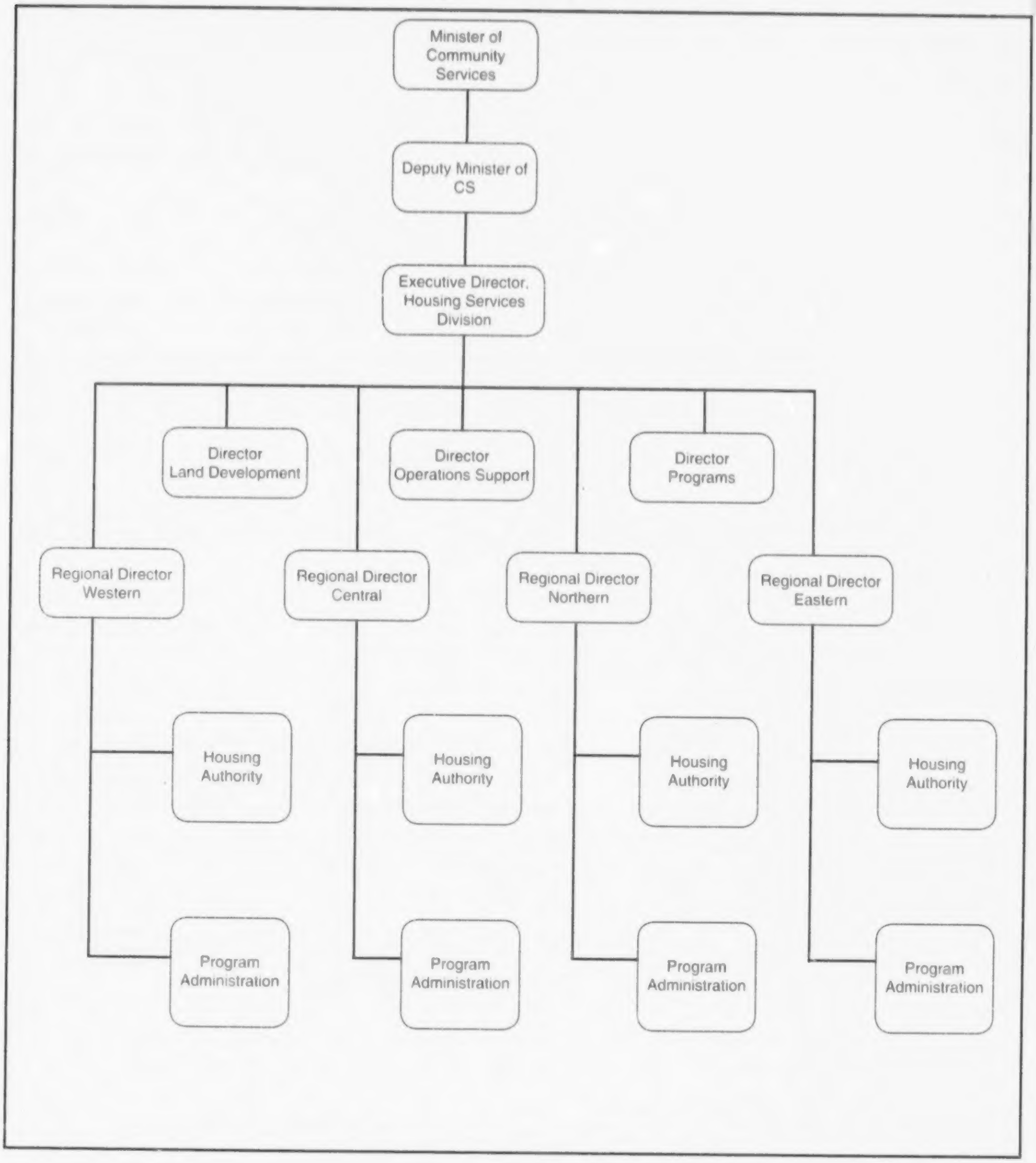

Minister of Community Services
Deputy Minister of CS
Executive Director, Housing Services Division
Director Land Development
Director Operations Support
Director Programs
Regional Director Western
Regional Director Central
Regional Director Northern
Regional Director Eastern
Housing Authority
Housing Authority
Housing Authority
Housing Authority
Program Administration
Program Administration
Program Administration
Program Administration

Exhibit 4.3

Mortgage, Grant and Subsidy Programs

Provincial Mortgage Program

Family Modest Housing Program – provides mortgage funds up to $70,000 to buy or build a modest home.

Provincial Loan Programs

Parent Apartment Program – provides loans up to $25,000 for the creation of accommodations for family members who are at least 50 years of age.

Small Loans Assistance Program – provides homeowners with low interest loans up to $20,000 for home renovations, additions or repairs.

Grants for Home Repairs

Provincial Housing Emergency Repair Program – provides grants up to $2,500 to lower income households to carry out emergency and health and safety related repairs to their homes.

Senior Citizens Assistance Program – provides grants up to $3,000 to seniors to carry out emergency and health and safety related repairs to their homes.

Access-a-Home Program – provides grants up to $3,000 to help homeowners renovate their homes to make them more wheelchair accessible.

Residential Rehabilitation Assistance Program:

> Homeowner – provides a forgivable loan up to $12,000 to homeowners who own and occupy substandard housing, to make repairs so the home will meet minimum health and safety standards.
>
> Disabled Homeowner – provides a forgivable loan up to $12,000 to homeowners to carry out work needed to modify homes occupied by someone with a disability.
>
> Emergency Repair Program – provides grants up to $4,635 to homeowners who live in rural areas to carry out repairs that are needed on an urgent basis to deal with health and safety hazards.
>
> Home Adaptations For Seniors' Independence – provides financial assistance up to $2,500 to homeowners and tenants to carry out adaptations needed to extend the time low income seniors can live in their homes independently.
>
> Rental – provides a forgivable loan up to $18,000 to landlords to pay for mandatory repairs made to units occupied by low income tenants.
>
> Disabled Rental – provides a forgivable loan up to $18,000 to landlords to pay for work needed to modify a unit occupied or intended to be occupied by someone with a disability.

Rooming House – provides a forgivable loan up to $12,000 per bed-unit to pay for mandatory repairs made to rooming houses.

Conversion – provides a forgivable loan up to $18,000 or $12,000 to convert non-residential properties into affordable self-contained apartments or bed-units; respectively.

Rental Housing

Seniors Housing – provides seniors with safe, adequate and affordable rental housing in seniors' apartments. Rent is based on household income.

Family Housing – provides families and individuals with safe, adequate and affordable rental housing in family housing units. Rent is based on household income.

Rent Supplement Program – provides a rental subsidy to a private landlord so the rent charged will be the same as it would be for a rental unit managed by a housing authority. Rent is based on household income.

Co-operative Housing

Provides modest, affordable housing for lower and moderate income families and individuals through non-profit continuing housing co-operatives. Co-operative housing is owned and managed by the resident members.

Rural and Native Housing

Enables native and non-native households in rural areas to access affordable, adequate and suitable housing either as an owner or renter.

5 ACCOUNTABILITY OF SCHOOL BOARDS

BACKGROUND

5.1 In 1997, a significant restructuring amalgamated 22 district school boards into six Regional School Boards (RSBs) and the Conseil scolaire acadien provincial. Our 1997 Annual Report indicated that the accountability framework was clearly defined in the 1995 Education Act and the Regulations. At the time of our 1997 audit, it was too soon to examine how the framework was implemented. Now six years have passed and we believe that it is appropriate to examine the implementation of the accountability framework for the school boards. During 2001, two Regional School Boards (Chignecto-Central and Strait) experienced well-publicized problems relating to accountability which also impacted the scope and objectives of our audit.

5.2 The 2002-03 *Government Business Plan* (page 19) states specifically that the government will "*continue to emphasize accountability at all levels of the education system.*"

5.3 The Financial Measures (2002) Act received Royal Assent on May 30, 2002 and Part V included amendments to the Education Act to improve accountability of school boards. Clauses addressed conflicts of interest for staff, Ministerial approval of senior staff contracts, a new administrative structure and a senior staff compensation framework, establishing audit committees, and increased reporting to the Department of Education (DOE) to enhance accountability.

5.4 In 2001-02, $664.4 million in grants and contributions was provided for public education funding. In that year, the six Regional School Boards reported excesses of revenue over expenditures (ranging from $0 to $731,916) and the Conseil acadien reported an excess of expenditures over revenue ($938,993). The Province budgeted $673.6 million in grants and contributions for public education funding in 2002-03.

RESULTS IN BRIEF

5.5 The following are the principal observations from this audit.

- School boards are generally complying with the original (1995) accountability requirements in the Education Act for submission of business plans, budgets, and audited financial statements. The Department has drafted Regulations and related policy and procedures for many of the new accountability reporting requirements which came into place with the May 30, 2002 changes to the Education Act included in the Financial Measures (2002) Act. We encourage the Department to complete this initiative by obtaining approval of the Regulations on a timely basis.

- The majority of recommendations made in two special reviews conducted in 2001-02 (Minister's Review Committee Report on Chignecto-Central and Strait Regional School Boards and a consultant's report on the Strait Regional School Board) are in various stages of implementation by the Department and by the Boards. Many of the Regulations have been drafted and we urge the Department to proceed with approval and implementation.

- Although the Department has many important accountability-related initiatives in progress, the detailed planning does not always include specific timelines for completion. We recommend that the Department improve its project management by ensuring that project plans always include timelines. The Department should also formally report on achievement.

- School board accounting policies do not comply with generally accepted accounting principles in certain areas. The Departments of Education and Finance and school boards have been working on a new Regional School Board Financial Handbook for a number of years. We encourage the completion of this initiative and the release of a new Financial Handbook which is totally compliant with generally accepted accounting principles.

- The implementation of a new financial accounting system for school boards was a significant undertaking. The project was completed as planned, by the target date and within the project budget.

- The Department has not been able to fully implement its new funding formula for school boards. For 2002-03, approximately 75% of the total funding allocation was from baseline dollars determined under the old formula and 25% of the allocation was from the new formula. A funding formula which is not applied is of limited value. We encourage the Department and the Education Funding Committee to complete the 2003-04 Department workplan which shows the funding formula as a priority, with a new formula to be implemented for 2004-05.

AUDIT SCOPE

5.6 The objectives of the assignment were to:

- review and assess the accountability structure, performance reporting, and compliance with the Education Act, including implementation of the changes resulting from the Financial Measures (2002) Act;

- determine if the Department of Education's school board accounting policies comply with generally accepted accounting principles;

- determine the status of initiatives identified in DOE's business planning documents;

- determine if DOE funding allocations to the school boards for 2002-03 were made in accordance with the formula, and if DOE receives sufficient and appropriate information to support the funding process; and

- review the status of the Department's efforts to address the recommendations from the reviews of the Strait Regional School Board and Chignecto-Central Regional School Board.

5.7 Our approach included interviews, review of documents and legislation, and discussions with management. Our fieldwork commenced in December 2002 and concluded in April 2003.

5.8 The criteria were taken from recognized sources including the Canadian Institute of Chartered Accountants Criteria of Control Boards' *Guidance on Control*, the Office of the Auditor General of Canada's *Financial Management Capability Model* and *Modernizing Accountability Practices in the Public Sector*.

PRINCIPAL FINDINGS

Accountability, Performance Reporting and Compliance with Legislation

5.9 The Education Act is a key document that establishes the accountability relationship between the Department and school boards. School boards are "*accountable to the Minister and responsible for the control and management of public schools within its jurisdiction.*"

5.10 School boards are required to submit September 30 enrolment counts, commercial activity reports, salaries and expenses reports, budgets, audited financial statements and business plans to the Department. The requirement for some of the accountability documents noted above has been in place for many years, while the requirement for others is fairly new. The Department's Regional Education Officers monitor program accountability while the Grants and Audit Division provides support on financial matters and monitors financial accountability.

5.11 Annual plans including budgets - In our 2000 Report we recommended that "*DOE work with Regional School Boards to establish the format for strategic and business plans*" (page 70, paragraph 5.18). The Department worked closely with school boards to develop a template that would meet the needs of all parties involved. The template includes goals, reports of achievements, priorities and outcome measures.

5.12 School boards were first required to submit draft business plans to the Department in December 2001 for the 2002-03 fiscal year. All boards met this requirement. Final business plans were submitted following approval of the school board budget. Four of the seven boards have their business plans available on their websites.

5.13 School board business plans are approved by elected Boards prior to submission to the Department. The 2002-03 business plans were reviewed by the Department but not formally approved by DOE or tabled in the House of Assembly.

5.14 Department staff reviewed the business plans for compliance with template guidelines, and consistency throughout the document and with Department initiatives. The Department found that school board goals and priorities were consistent with Department goals and priorities. Three of the six Regional Boards actually noted the linkage to Department goals and priorities in business plans. Department initiatives are shared with school boards in advance as there is school board representation on committees which develop the initiatives.

5.15 School boards are required to prepare and approve a budget within 60 days of receipt of the Minister's statement of financial assistance. The Grants and Audit Division conducts detailed reviews of the budgets to confirm that the budget has been prepared in accordance with the School Board Financial Handbook and to provide the Department with budget information on a consistent basis to allow for comparison and analysis. Grants and Audit conducted the 2002-03 budget reviews throughout the July to September time period and found the school board budgets had been prepared in accordance with the Handbook.

5.16 Audited financial statements - According to Section 85(6) of the Education Act, school boards are to provide the Minister with copies of audited financial statements and the audit management letter within four months after year end (i.e., by July 31). Section 16(2) of the Provincial Finance Act requires audited financial statements by June 30 (3 months after year end) to prepare the consolidated financial statements for the Province. By mid-September 2002, three school boards had not provided copies of audited financial statements to the Department. These boards were sent requests for this information which was received by October 23, 2002.

Recommendation 5.1

We recommend that the Education Act be changed to include June 30 as the date by which school boards are required to file financial statements with the Department of Education. This change would provide for consistency with the Provincial Finance Act.

5.17 Performance reporting - School boards have typically reported on their achievements in annual reports. The Business Plan format has been designed to eliminate the need for a separate annual report. School boards report on the achievement of goals and priorities as well as outcome measures in the Business Plan. Two of the six Regional Boards specifically link their achievements to goals and priorities.

5.18 The Business Plan requires the inclusion of outcome measures with a corresponding target. Implementation of many of the Department of Education's targets was expected to take a few years because of the extent of change required in the school system. Outcome measures have not yet been reported for all targets because the target date for many initiatives is 2004-05 and it is too soon to report on achievement.

Special Reviews and Financial Measures (2002) Act Changes

5.19 As a result of problems that surfaced at two Regional School Boards during 2001, the Department of Education commissioned two special reviews; one at Chignecto-Central and Strait Regional School Boards by a Minister's review committee, and one at the Strait Regional School Board by external consultants. Both of these reviews include recommendations that are applicable to all regional school boards. The only public report related to the status of implementation was in September 2002 in *Learning for Life-Planning for Student Success* (see paragraph 5.21 below).

5.20 The recommendations are in various stages of implementation by the Department. The Department acted upon certain recommendations by instituting changes to the Education Act via the Financial Measures (2002) Act which are discussed below. Regulations supporting changes to the Act have been drafted but are not yet approved. In addition, some recommendations were also addressed to school boards which are responsible for implementation. We urge the Department and school boards to proceed with approval of draft changes and implementation.

5.21 The Financial Measures (2002) Act, given Royal Assent on May 30, 2002, brought about changes to the Education Act. It clarified the accountability relationship by modifying existing reporting requirements and instituting new accountability requirements such as commercial activity reports and conflict of interest policies. The Department developed a workplan to facilitate the process by identifying the required actions, the time frames and assigning responsibilities. There has been limited reporting by the Department on the achievement of this workplan. The Department's September 2002 publication *Learning for Life – Planning for Student Success* includes a status report but it has not been updated. Some of the time frames noted in that document were not achieved, and there has been no public reporting of revised time frames.

5.22 Commercial activity reports - Under 2002 amendments to the Education Act, school boards are not to engage in commercial activity without the approval of Executive Council. There is a new reporting requirement for the submission of commercial activity reports showing activities in which the school board is engaged. No time frame was established in the workplan but the Department is currently assessing the reports received to determine whether any action is necessary - Executive Council approval or withdrawal from the activity by the school board.

5.23 Salaries and expenses reports - The requirement for school boards to submit annual reports of salaries and expenses is not new. They have been required for a number of years. The reports have been reviewed by the Grants and Audit Division of the Department and no significant findings were noted.

5.24 As a result of the special reviews completed in 2001-02, the Department chose to be more specific in prescribing the manner and form of the report. These changes are to present areas of higher risk and facilitate the Department's review of the reports. The workplan did not specify a deadline but Regulations for the new format were to be in place for the fiscal year ending March 31, 2003. As noted in paragraph 5.20, Regulations have not yet been approved.

5.25 Conflict of interest policy - The 2002 amendments to the Education Act established the requirement for school boards to establish a conflict of interest policy. A working committee with representation from the Department and school boards was formed to review policies in place and develop a model policy consistent with existing Provincial policies, guidelines and legislation. The committee has drafted Regulations and is near completion on the development of a policy template consistent with those Regulations. The workplan established a time frame for completion in winter 2002-03, but it is now anticipated that the Regulations will be in effect and school boards will have established conflict of interest policies and educational material by fall 2003.

5.26 Employment or personal-services contracts - The May 30, 2002 changes to the Education Act include the requirement for all employment or personal-services contracts to be approved by the Minister. Department of Education management informed us that all employment contracts since that time have been submitted to the Minister for approval. A target date of winter 2003-04 was set as the deadline for all senior staff to have employment or personal-services contracts.

5.27 Administrative structure and compensation framework - The May 30, 2002 changes to the Education Act required school boards to implement an administrative structure and establish a compensation framework for senior staff as defined in the Regulations. No target date was established in the workplan and these Regulations are yet to be developed.

5.28 The Department has formed an Administrative Structure, Compensation, Contracts (SCC) Committee to oversee the development of these initiatives. Two subcommittees were formed from this Committee – one to focus on administrative structure and one to focus on compensation. The Committees have representation from the school boards, the Nova Scotia Public Service Commission and appropriate functional areas within the Department.

5.29 Integral to both initiatives is the definition of senior staff which has proven to be more problematic than originally anticipated. Factors such as negotiation and arbitration of the Provincial Collective Agreement and consultation with stakeholders on implementation issues have also hindered progress in the completion of these initiatives. Work is progressing but there is no target date for the development of the new Regulations or the implementation of the new administrative structures and compensation framework. Establishment of a target date is necessary to achieve appropriate project management.

5.30 Audit committee - New with the May 30, 2002 changes to the Education Act is the requirement for school boards to establish audit committees as prescribed in the Regulations. Regulations respecting composition and terms of reference were to be developed. Department staff consulted with stakeholders to determine membership, roles and responsibilities of audit committees. Regulations have been drafted but are yet to be put in effect.

5.31 The changes required by the Financial Measures (2002) Act are necessary to improve accountability and control for school boards. Because these changes are critical, we believe the Department of Education should have a detailed implementation plan, including timelines. We also believe that the Department should report progress in achieving the plan.

Recommendation 5.2

We recommend that the Department of Education update the plan for implementation of changes required by the Financial Measures (2002) Act to include timelines for each initiative. The Department should also formally monitor and periodically report achievement of the plan.

Department Accountability and Performance

5.32 Since the mid-1990s, the Department has developed an annual business plan. The Department plan is approved by the Minister and Deputy for submission to Treasury and Policy Board.

5.33 The format for the Department business plan is determined by Treasury and Policy Board and includes such categories as planning context, strategic goals, priorities or initiatives and outcome measures. The Department establishes a working group with corporate representation to prepare the plan. The plan is reviewed by senior management and approved by the Deputy Minister. It is available on the Department website.

5.34 The Department identifies key initiatives that are fundamental to the achievement of outcomes. With the aid of a Key Departmental Initiatives Workplan the Department monitors initiatives every two weeks. Some initiatives are completed in a short span of time while others are more complex and are completed in stages over several years.

5.35 The Financial Measures (2000) Act established the requirement for department accountability reports. The Department of Education produced its first report on October 19, 2001 for 2000-01. Its second report, for 2001-02, was produced on July 24, 2002. Both are available on the Department website. The data is collected by Provincial sources and reported with a Province-wide focus showing outcomes against the business plan. The reports are approved by the Minister and the Deputy.

5.36 The Department of Education also produced the *Minister's Report to Parents of the 2001 Student Assessment Results for Nova Scotia*. It follows from government's commitment to parents to improve student reporting systems. The Department intends to produce this report annually. The March 2002 report contains 2001 Provincial, national and international test results often shown by school board.

Accounting Policies

5.37 The Department of Education establishes, documents, and communicates its general accounting policies to the school boards through the District School Board Financial Handbook. The school boards utilize the financial handbook originally issued in 1987. The handbook has not been updated to keep pace with the many changes in generally accepted accounting principles (GAAP). The external auditors' opinions for all the school boards indicate the financial statements are in accordance with accounting principles included in the District School Board Financial Handbook. However, the school boards' financial statements are not compliant with current generally accepted accounting principles. Although the boards have not received qualified audit opinions to date as a result of the lack of compliance, it is likely, given current developments in the auditing profession, that future audit opinions will be qualified unless the boards adopt generally accepted accounting principles.

5.38 The 2002-03 Government Business Plan makes specific mention of a new financial handbook to guide policy and decision making for the school boards. The plan mentions that the new financial handbook will aid in adopting generally accepted accounting principles for school board financial statements. The Department has recently completed a draft of a new Regional School Board Financial Handbook (RSBFHB).

5.39 The recommendations of the Canadian Institute of Chartered Accountants and its Public Sector Accounting Board (PSAB) apply to governments and school boards. It is essential that the Department of Education's accounting policies for school boards comply with these recommendations. The current draft of the RSBFHB still includes some areas which are inconsistent with generally accepted accounting principles.

5.40 Major differences between current accounting practices of school boards and generally accepted accounting principles include the following:

- Recording of outstanding purchase orders - Currently, some school boards are recording purchase orders as accounts payable liabilities at year end. This practice of recording purchase orders at year end has been used by certain boards to reflect a break even result from operations where there would otherwise be a surplus.

- Recording of accrued salary costs at year end - Employees are paid every two weeks throughout the year. Historically, the salary costs for the period between the date of the last pay of the fiscal year and the year-end date have not been recorded as expenses. Teaching staff payroll amounts to approximately $2.6 million per day. In addition, four school boards do not accrue non-teaching staff wage costs at year end. The Department has indicated this is approximately $1 million at March 31, 2002.

- Accounting treatment of reserves - Many of the school boards' audited financial statements show reserves. These totaled approximately $7.3 million on the March 31, 2002 financial statements. Historically, certain boards have adjusted the results of operations by transferring amounts to and from reserves, presumably to avoid reporting deficits or surpluses. The March 31, 2001 reserve balances reported by school boards totaled $2.5 million. During the fiscal year ended March 31, 2002 total school board transfers to reserves were approximately $5.7 million and transfers from reserves were approximately $0.9 million. In some cases, transfers were included in calculating the annual surplus or deficit from operations. In addition, prior years' deficits were sometimes shown as a current year expense. This practice is not in accordance with generally accepted accounting principles which indicate that transfers to/from reserves should be viewed as equity transactions which do not affect reported results from operations.

5.41 Inconsistent application of accounting policies - In addition to accounting policies which do not comply with generally accepted accounting principles as noted above, there are areas where school boards apply policies differently. The difficulty in this situation is that the resulting financial statements, although technically compliant with GAAP, may not be comparable among boards. For example, comparison of school board financial statements indicates capitalization policies, thresholds, and repair versus capital treatment policies were inconsistent among boards. The new Regional School Board Financial Handbook is expected to give guidance and provide for consistency in these areas.

Recommendation 5.3

We recommend that the Departments of Finance and Education continue with efforts to ensure that school board accounting policies comply with generally accepted accounting principles as defined by the Canadian Institute of Chartered Accountants and its Public Sector Accounting Board. The Regional School Board Financial Handbook should be issued in final form as soon as possible. The Department and school boards should also establish a mechanism to ensure that the Handbook is updated as generally accepted accounting principles evolve.

Status of Department's Business Planning Initiatives

5.42 The 2002-03 Department of Education Business Plan identifies the following important initiatives:

- implement SAP finance, procurement, and business warehouse modules (page 82)
- new Human Resources and Legal Services Division for Department (page 83)
- investigate whether school board payroll functions and financial statement audit should be consolidated to achieve economies and efficiencies (page 83)
- standardized policy framework for rental of school facilities (page 76)

5.43 The status of each of these initiatives is discussed in the following paragraphs.

5.44 New Human Resources and Legal Services Division - Division Management indicates that school boards spend between $0.75 and $1 million annually on legal fees of which approximately 66% is human resource related (contract negotiations, grievances or arbitration) and the balance represents other legal services. The work is not shared and there is a high likelihood of duplication, conflicting opinions, and other inefficiencies.

5.45 As a part of Education Renewal, established by the Department in 2001, there are a number of initiatives in development which call for Provincial standards of performance and accountability. School boards are expected to meet those standards to enable government to demonstrate accountability for quality and efficiency to both the stakeholders and the public. There are significant human resource, contract-related and legal implications associated with most of these initiatives.

5.46 As a result of the above, planning for a new Human Resources and Legal Services Division commenced in late fall 2001 and the Division became operational in early 2003. The Division provides legal and advisory human resource services to school boards and works closely with the Public Service Commission and the Department of Justice.

5.47 SAP - finance, procurement and business warehouse modules - The Department of Finance disbursed $4.3 million to the Nova School Boards Association in the spring of 2001 to fund the Integrated Data Management Project (IDMP) implementation. The project scope included financial, procurement and business warehouse modules of the government's Central Financial Management System (CFMS) using SAP software.

5.48 The Department of Education assigned an internal project manager from within the Department. In addition, external consultants participated in quality assurance and project management. Regular progress reports were provided to the steering committee by the internal project manager as required by the plan. At the time the project went live on April 2, 2002 it was under budget by $720,000 (17%). The surplus funds will be used, together with additional funds, to implement the human resources and plant maintenance modules, and integrate student information. The committee will be considering which of the additional modules to implement as funding for all the modules is not in place.

5.49 There are approximately 170 users of the current system. Access to the financial information occurs through an agreed upon protocol between the Department and school boards.

5.50 The Department of Finance (Corporate Information Systems Division, SAP Systems Support group) took over the data warehouse responsibilities through use of a central agency server. A service level agreement between the Province and the school boards was developed. A post-implementation review of the controls related to access to finance and procurement systems was completed and its four key recommendations are as follows:

- improvement in segregation of duties is required;
- restriction is required on use of super user access privileges;
- additional training on SAP functions is required; and
- review of user access is required.

5.51 All school boards engage public accounting firms to provide audit opinions on financial statements. Since all boards now use the same application and server for processing of financial data, it may be possible to eliminate some duplication of audit effort by hiring one auditor to provide an audit opinion on the controls over the data processing operation (service organization). Each of the financial statement auditors would then rely on the single audit opinion in forming their opinion on the financial statements.

Recommendation 5.4

We recommend that the Department initiate discussions with the school boards, the external auditors and the Department of Finance with a view to obtaining a service organization audit opinion.

5.52 Consolidation of payroll and audit - Although the Department's Business Plan identified appointment of a common financial statement auditor as an area for investigation of potential cost savings, the Department considered the issue and decided that, under the current governance model, there would be no benefit and that the school boards should continue to appoint their own auditors.

5.53 The motivation for consolidating payroll was to bring the service in-house at the Province, thereby building capacity and reducing costs and dependence on consultants and outside service providers. The payroll project is no longer an exclusive Department of Education project. Government has made a corporate decision to bring all payroll processing for the Province in-house. The payroll project is being rolled out to the entire Province through a joint process involving the Departments of Finance and Education and the Public Service Commission. Following development and implementation, school boards will use the new SAP human resources module.

5.54 Community access to schools policy - In late 2001 the Department established a Provincial policy framework within which school boards may establish procedures governing use of school facilities, excluding P3s, for other than educational purposes and activities. The purpose of the policy is to set out a framework, within which school boards may manage and administer community use of schools, such that:

- access and user fees are reasonably consistent;
- participants have a common understanding of roles, responsibilities and accountabilities;
- scheduling, cleaning, supervision, security and liability issues are satisfactorily addressed; and
- new joint use/partnership agreements are encouraged.

5.55 A set of principles, established to guide school board development of system user fee schedules, roles, responsibilities and accountabilities, has been developed. Evaluation mechanisms will be used to monitor and evaluate the impact of this policy framework, and school boards' procedural administration of the policy. The policy remains in draft and the intention is to implement it in fall 2003.

Recommendation 5.5

We recommend that the Department of Education finalize the Community Access to Schools policy.

Funding Formula

5.56 Historically, grants provided to school boards each year were based on recommendations to the Minister of Education by the Education Funding Review Work Group (EFRWG). The group included representatives from all school boards within the Province. The EFRWG issued a report dated April 15, 1999 recommending a new funding model to be implemented over a multi-year time horizon. The formula was not officially accepted by the government.

5.57 A new work group called the Education Funding Committee (EFC) was established in 2000 as part of revised consultative structures, replacing the EFRWG. The EFC is responsible for providing advice and recommendations to the Education Consultative Forum on education funding for school boards and is guided by the established *Principles of Education Financing* (see Exhibit 5.1). The Education Consultative Forum includes the Superintendents of the school boards and the Deputy Minister of Education.

5.58 The Education Funding Committee consists of senior officials from finance, policy and program branches of the Department; the Chief Financial Officers and three senior program staff of the school boards; and representatives of the Nova Scotia School Boards Association. A Department senior official is the appointed Chair. The terms of reference require research undertaken by EFC to be consistent with the education objectives of the Department and it must be cognizant of the fiscal targets of the government for education funding.

5.59 At the time the EFRWG made the initial formula recommendation in 1999, it also recommended the EFRWG continue to meet *"to better define and analyze components of the formula to ensure that it achieves the principles of education financing."* Because the EFRWG was replaced, this review did not occur. For 2002-03, the 1999 formula was not used. We note that fully applying the formula would have exceeded the government's fiscal targets. The Education Funding Committee decided on a blend of applying the old baseline formula and the new formula, for the second consecutive year. Approximately 75% of the total funding allocation is from baseline dollars determined under the old formula and 25% of the allocation is from the new formula. This varies on an individual board basis. A funding formula which is not applied is of limited value.

5.60 We reviewed the Department of Education's process for allocating funding among the school boards and assessed whether allocations were made in accordance with the formula and whether the Department received sufficient, appropriate information from school boards to support the process.

5.61 A major factor in the formula is student enrollment as at September 30 of the previous school year. This information is provided by the respective school boards, and is audited by the Grants and Audit Division. The student enrollment is related to pupil teacher ratio (PTR) standards established by the EFRWG when developing the formula in 1999. The 2001-02 student population and the PTR standards are the basis for allocation of school board funding for 2002-03.

5.62 Adjustments were made to the formula to reflect the unique nature of certain boards for such factors as higher transportation costs, higher teacher education levels, or lower pupil teacher ratios. These adjustments comprised approximately $16.6 million or 2.4% of Provincial funding and were the subject of negotiations between the Department and all school boards.

5.63 Althouth certain components of the formula did not reflect the actual experience of various school board cost increases; for example, teachers' salary and benefit cost increases, these cost pressures were funded by the Department as a separate line item.

5.64 We found certain sections of the formula no longer apply due to changes in the methodology followed within the Department, specifically transportation capital is no longer funded according to the formula.

5.65 The Department indicated the formula is overly complex and does not address the specific problems of individual boards. The Department's preference would be to have a formula which is sensitive to cost incurrence at the school level rather than the current method of funding based on enrollment and PTRs with no regard to the number and distribution of schools. A school-based formula would recognize the unique challenges of certain boards. The Department's Work Plan for 2003-04 shows the funding formula as a priority, with a new formula to be implemented for 2004-05.

Recommendation 5.6

We recommend that the Department of Education and the Education Funding Committee proceed with their plans to review the funding formula with a view towards establishing and implementing a formula which is consistent with the Department's *Principles of Education Financing* and available funding.

CONCLUDING REMARKS

5.66 Since 1995, the Department of Education has been focusing on the need to improve accountability for school boards. Improvements legislated in the 1995 Education Act have generally been implemented, but the Department and school boards continue to work towards implementation of many of the 2002 changes. We urge that implementation of these initiatives continue to be viewed as a priority.

5.67 The recommendations flowing from the two special reviews on Chignecto-Central Regional School Board and the Strait Regional School Board are in progress. Those from the internal review have generally been legislated through the Financial Measures (2002) Act but the detailed Regulations governing implementation have not yet been finalized. We encourage the Department to finalize the required Regulations and policy guidance. In addition, the Department should review implementation at the school board level and publicly report the status.

5.68 The financial statements of school boards do not currently comply with generally accepted accounting principles in certain areas. Compliance with generally accepted accounting principles was one of the initiatives in the Government Business Plan. The Business Plan mentions a new financial handbook to guide policy and decision making for school boards. The Department has completed a draft of the new handbook. We encourage the Departments of Finance and Education to resolve the remaining issues and issue the handbook to school boards.

Exhibit 5.1

Principles Of Education Financing from the Education Funding Work Group Report, April 15, 1999

The Principles of Education Financing were first established by the Education Funding Review Work Group in 1993. These principles are meant as beacons to those reviewing education financing in Nova Scotia. The following principles were reviewed as part of this year's funding review process and again have proved useful in the development of funding formulas for the 1999-2000 fiscal year. Since these principles represent an ideal which should always be kept in mind when funding decisions are made, they will continue to be of value in future funding review processes.

Principle 1 – Equity

Three main components make up the principle of equity:

- Equity in horizontal access means the opportunity to receive quality core programs and related services must be equal across the province with minimal differences from region to region.
- Equity in vertical access means students with different needs must be afforded different approaches to programming and service delivery of the core program.
- Equity of taxpayer burden means the funding formulas must result in reasonable sharing of the costs of education for all taxpayers in Nova Scotia.

Principle 2 – Adequacy

Funding allocated through the provincial financing model must be sufficient to cover the actual costs of meeting current and evolving provincial education objectives and priorities. Secondly, the financing model must allocate sufficient funding to each school board to cover their actual costs of effectively delivering the core programs and related services in their respective regions.

Principle 3 – Responsiveness

The education finance model must be dynamic and change when necessary to respond to changing educational requirements, priorities and exceptional circumstances of certain school boards. This principle also means that the financing model must recognize the need for stability provided by the approval of multi year fiscal targets of each school board.

Principle 4 – Accountability

The education finance model must recognize and support an accountability framework that promotes effective long term business planning as well as efficient and effective delivery of education programs and services. This principle requires the establishment of an accountability framework which includes a statement of responsibilities, performance standards and reporting on those responsibilities that have been delegated and accepted.

Principle 5 – Involvement

Involvement is key to acceptance and success of the education finance model. To demonstrate involvement, the Department of Education & Culture must structure the Education Funding Review Work Group, both in membership and timing of the review process, to ensure there is an opportunity for meaningful input throughout the process.

Principle 6 – Interrelationship

This principle recognizes the fact that all of the preceding principles are interrelated. Therefore, any one principle cannot be addressed in isolation. Shortcomings in one principle impact all the other principles.

Summary

The Education Funding Review Work Group supports these Principles of Education Financing and believes these principles should continue to be the benchmarks against which success in education financing is measured.

DEPARTMENT OF EDUCATION'S RESPONSE

The Department of Education would like to acknowledge the quality and effort of the Auditor General in his review of school board accountability. Establishing and maintaining effective and transparent accountability relationships is a priority and a principal objective of the department and its education partners including regional and district school boards.

Significant improvements in accountability for school boards were brought forward by the Department in the *Financial Measures (2002) Act*. Since that time, the department has consulted extensively with school boards in drafting and supporting new regulations. As noted by the Auditor General, those regulations were in draft form at the time of their review. We are pleased to report that all new regulations are in place in all but one area. That area is the compensation framework for senior school board staff, which is expected to be concluded soon. Regulations for all other areas are completed including regulations governing the school board conflict of interest policy, a standardized school board administrative structure, new school board audit committees and revisions to the regulations which expand the scope of the existing mandatory financial reporting regulations. School boards have been advised that the department will follow up on implementation starting in the spring 2004.

We appreciate the Auditor General's acknowledgment of the efforts of our staff in each of the areas reviewed. The Auditor General's office recognized both the magnitude of the project to implement SAP financial, procurement, and business warehouse systems across all school boards and the department, as well as, the completion of that project on time and below budget.

On behalf of the department, I appreciate the opportunity to respond to selected portions of this review as part of the Report of the Auditor General for 2003. We will continue to work with school boards to ensure ongoing accountability for tax payer's dollars spent and for the quality of education provided to our students.

6 UNIVERSITIES - INTERNAL CONTROL AND FINANCIAL MANAGEMENT

BACKGROUND

6.1 In response to suspected fraud at Collège de l'Acadie (see paragraph 6.9 below), in May 2002 the Minister of Education requested the Office of the Auditor General to conduct an audit of the general audit and control environments at the universities and community colleges. Specifically, the Minister wanted "*assurances that the audit procedures and control mechanisms in place are adequate and appropriate to protect tax dollars.*" We considered the request and agreed to conduct an audit of certain universities under Section 15 of the Auditor General Act. We were unable to conduct an audit of the Nova Scotia Community College in the current year but are planning one for our next Annual Report.

6.2 Universities receive funding from government but are not part of the government financial reporting entity as they are not directly controlled by government. Government does not unilaterally appoint or remove a majority of the members of the Board of Governors; it does not establish or amend the mission or mandate of the universities; and it does not establish organizational policies for the universities. Universities are governed by Boards of Governors appointed through respective enabling legislation. Appointees may be representatives of faculty, students, alumni, sponsoring or founding organizations such as churches, or appointed through the board nomination process of Executive Council.

6.3 The Universities Assistance Act allows for the Minister of Education to provide grants to universities to assist in defraying operating expenditures. The Minister has the authority to require universities to report on those expenditures. The grants can be applied to any area of university operations, including funding of deficits on ancillary operations and athletic departments. The Department of Education could give us no examples of items that would be ineligible expenditures.

6.4 In 2002-03, the Province budgeted and paid out $188.7 million in unrestricted operating grants to universities in Nova Scotia (see Exhibit 6.1). An additional $6.03 million (not included in the 2002-03 Estimates) was paid out in March 2003. In November 2003, the Province clawed back $1 million of the 2003-04 university grants.

6.5 The Province's contribution towards operating expenditures is, for most universities, less than 50% of total operating revenues (Canadian Association of University Business Officers). Funding is higher for programs that have a higher cost of delivery (e.g., medicine). Dalhousie delivers the majority of the higher cost programs, so Dalhousie has a higher percentage of operating funds received from the Province (49%) than most other universities (see Exhibit 6.1).

6.6 Universities report annually to the Maritime Provinces Higher Education Commission (MPHEC - an agency of the Council of Maritime Premiers) on enrolment, financial and faculty data. MPHEC is a stakeholder-neutral source of data and a conduit for the information provided to Statistics Canada. The principal functions of MPHEC are quality assurance, data and information, stimulating cooperative action, and administration of regional programs.

6.7 MPHEC uses enrolment data in administering the Regional Transfer Arrangement. This Arrangement requires that each of the three Maritime provinces provide annual funding to the other two provinces for any students enrolled in programs not offered in the home province. MPHEC determines the net regional transfer amount to be paid to each province. In 2002-03, Nova Scotia received slightly more than $8.2 million from MPHEC through this Arrangement.

6.8 On November 28, 2002, the Université Sainte-Anne - Collège de l'Acadie Act received Royal Assent. It was proclaimed effective January 23, 2003. The Act merges the two Francophone post-secondary institutions. Canada and Nova Scotia signed an agreement on February 21, 2003 regarding funding of the merger costs. Nova Scotia has agreed to contribute $7.9 million to the costs of the merger over a five-year period to 2006-07, and Canada has agreed to contribute up to $7 million in matching funds.

6.9 The March 31, 2002 and January 23, 2003 audited financial statements of Collège de l'Acadie include a note discussing an irregularity. The former Director of Finance is accused of misappropriating assets of the institution totaling $1,024,742. Of that amount, $602,590 has been recovered from insurance and other sources.

6.10 We last reviewed universities in detail in 1990 when the financial management processes at seven universities were examined. In 1996, we conducted a study of university governance and in 2000 we conducted an audit of grants to universities which are administered by the Department of Education's Higher Education Branch and the Nova Scotia Advisory Board on Colleges and Universities.

RESULTS IN BRIEF

6.11 The following are the principal observations from this audit.

- Our audit of the internal control environment over the revenue/receipts and purchases/payment cycles at four universities identified no significant control weaknesses, although we made recommendations for enhancements in some areas, including the need for improved cash controls at the Collège de l'Acadie sites.

- Universities have one of two types of pension plans - defined benefit or defined contribution. Five universities have defined benefit plans and three of those five plans have unfunded liabilities. We are concerned with the existence of significant pension deficits at three universities. In addition, one university has a significant operating deficit.

- There is a need at all universities to enhance business planning processes by preparing annual operational or business plans.

- Audited financial statements could be improved if comparisons of actual expenditures to budget were included. Generally accepted accounting principles (GAAP) permit the universities to choose from alternative policies which make it difficult to compare results among institutions. Although all university financial statements currently comply with GAAP, comparability between institutions could be improved if universities implemented common accounting policies. In some cases, unaudited financial information in universities' annual reports requires improvement to enhance understandability.

- Only one of the universities we visited had an adequate inventory system to provide control over computers and related equipment.

- Generally, procurement transactions tested were in compliance with applicable procurement policies although a few instances of non-compliance were noted at all universities. The majority of these instances were exceptions to the policy where the rationale should have been documented more clearly and properly approved.

- Processes and procedures for the collection and reporting of enrolment data are generally good although we believe that the process for identification of non-Canadians and charging of foreign differential fees requires improvement at some universities.

AUDIT SCOPE

6.12 The objectives of this assignment were to determine whether:

- the university has adequate systems to provide for budgeting, internal financial reporting and monitoring;

- management and the Board are receiving sufficient, appropriate information from management and the auditor to fulfill their stewardship responsibilities;

- the university has adequate internal controls over operating revenues and expenditures;

- the university has adequate policies and systems to control its inventory of personal computers and related equipment;

- the university complies with the government's procurement policy; and

- the university has adequate systems and practices to collect and report reliable enrolment data to the Province, MPHEC and Statistics Canada.

6.13 In January 2003, the assignment objectives and summary audit plan were discussed with the Council of Nova Scotia University Presidents (CONSUP). Due to resource limitations, we could not conduct detailed fieldwork at all ten universities. Our audit approach included a review of the financial statement auditors' working paper files for all ten universities and detailed on-site fieldwork at four universities - Dalhousie University, Saint Mary's University, University College of Cape Breton (UCCB) and Université Sainte-Anne.

6.14 The scope of our audit was limited to the universities' operating funds as those are the expenditures funded by the Province. We did not examine controls over research, endowment, ancillary operations or other funds which do not receive revenue from the Province.

6.15 Audit criteria were developed and discussed with the four universities at which detailed on-site fieldwork was to be conducted. The audit criteria were taken from recognized sources including the Auditor General of Canada's *Financial Management Capability Model*, the Canadian Institute of Chartered Accountants' *Public Sector Accounting Handbook* and *Professional Engagement Manual* and the Province of Nova Scotia's *Policy on Government Procurement*.

6.16 Detailed on-site fieldwork was conducted at various times from March 2003 to early October 2003. It included detailed testing of revenue/receipt and purchases/payments controls and transactions; examination of policies and procedures, reports and any other documents deemed to be relevant; and interviews with management and staff.

PRINCIPAL FINDINGS

Internal Controls

6.17 Revenue/receipt and purchases/payments cycles - Based on our review of financial statement auditors' files, discussions with management and testing of key controls, we noted no significant control weaknesses at Dalhousie, Saint Mary's or the University College of Cape Breton. Both Dalhousie and Saint Mary's have engaged external consultants to review controls over certain aspects of operations, providing evidence that internal controls are viewed as a priority. We suggest that Saint Mary's put in place a more formal process to monitor actions taken by management to address weaknesses identified during such reviews.

6.18 Université Sainte-Anne possesses adequate internal controls over operating revenues and expenditures with two exceptions. There are weaknesses over cash collection at Collège de l'Acadie and a lack of segregation of duties in the accounts receivable area. These findings have been reported to the Université for action.

6.19 Student receivables - Tuition fees paid by students are a significant portion of the total operating revenue for all universities. All universities visited had well-documented policies regarding the collection and payment of tuition fees. We noted that management and the Boards of all universities are concerned with the level of student account receivables.

6.20 Universities' tuition payment policies generally require payment of first semester tuition by the end of the first month of the academic term. Students with accounts in arrears are charged interest and late payment fees and, at least one university, certain privileges are suspended (e.g., athletic facility, library). Management has indicated that a rigid tuition collection policy is somewhat inconsistent with a mission of providing accessibility to higher education, therefore flexibility is required.

6.21 We believe that management should continue to monitor student account balances closely and take appropriate collection efforts as required.

6.22 In 2002, Dalhousie's financial statement auditors raised an issue for discussion with Dalhousie management regarding the adverse effect that the current collection policy had on the university's cash flow. This concern was not included in the auditor's management letter addressed to the Board of Governors. Dalhousie management advised us that the issue was not raised again in 2003.

Recommendation 6.1

We recommend that the universities carefully monitor student accounts receivable balances, and take action where fees are not paid by the end of the semester.

6.23 Computer inventories - None of the universities we visited had formal organization-wide policies outlining required procedures for the physical safeguarding of computers and similar assets. University management indicated that although formal policies do not exist, the universities strive to create secure environments for students and staff. Measures taken include security guards hired to monitor the university on a regular basis, restricted access to certain areas after normal working hours, card access to computer labs, etc.

6.24 We noted that responsibility for inventorying and monitoring computers and similar equipment is decentralized at the department or faculty level at Dalhousie. At Saint Mary's and the University College of Cape Breton, this responsibility is more centralized with information technology departments. Université Sainte-Anne does not have policies or systems to control computer equipment. Although the Université is very small and does not have significant amounts of computer equipment, the Collège is a leader in distance education using technology and the equipment should be appropriately controlled. Saint Mary's has decided, supported by a cost-benefit analysis, to lease computers rather than purchase them. As Saint Mary's is required to return the computers at the end of the lease, the University has developed a very effective system to inventory and monitor the physical location of the computers. At Dalhousie, some departments or faculties had inventory systems in place where others did not. The University College of Cape Breton has a process to record the initial purchase on an inventory list but does not perform any test counts or monitoring to ensure the University still has possession of the computer. We conducted detailing testing at all universities visited and noted that one computer listed on the inventory provided to us by UCCB could not be located although management indicated that the computer was likely transfered to the library when the previous user received a new one. No other errors were noted.

Recommendation 6.2

We recommend that all universities have inventory systems for capital assets, including computers and related equipment. These should be maintained and periodically verified through test counts. The universities should also have formal policies to govern the use and safekeeping of these assets.

Procurement

6.25 The procurement activities of universities must comply with the Province of Nova Scotia's *Government Procurement Process - ASH Sector*. These guidelines require that individual university procurement practices and policies be open and fair and provide the highest degree of competition and value. The guidelines also require that procurements of goods over $25,000, services over $50,000, and construction over $100,000 all be publicly tendered. Procurements under these thresholds are subject to the tendering policy of the specific university, provided the policy complies with the general requirements of being open, fair and providing best value.

6.26 We examined the documented procurement policies of all universities visited and concluded that the policies were consistent with the ASH sector guidelines. At some of the universities, we suggested policies be updated and enhanced to ensure they are current and complete. We suggested some improvements to the purchasing practices of Université Sainte-Anne including better documentation of receipt of goods, to reduce the risk of paying for goods that have not been received.

6.27 We tested procurement transactions to ensure compliance with the university's policy and that the best value had been obtained. In order to obtain assurance that the best value was obtained, we needed to review documentation relating to quotes obtained in a competitive procurement process. Although the majority of the transactions we tested were in compliance we did note a few instances at all the universities where procurement policies were not followed and, therefore, the best value to the university could not be demonstrated. These were transactions which were sole-sourced or not properly approved.

6.28 Investigation of instances of apparent non-compliance revealed that many of the purchases were deemed to be exempt from the universities' purchasing policy (e.g., emergency purchases, sole-sourced, etc.). In some cases, the reason the purchase was exempt from the policy was not evident from the documentation.

Recommendation 6.3

We recommend that universities document the rationale exempting specific purchases from compliance with policy and that all exceptions be formally approved by the person responsible for procurement.

6.29 All the universities visited participate in the joint procurement of goods and services through Interuniversity Services Inc. (ISI). ISI tenders for certain common goods and services and participating universities are able to purchase these items at the negotiated price. In addition, each of the universities we visited (except Université Sainte-Anne) had either fully implemented or were in the process of implementing a purchase card system for low dollar value transactions. Purchase card systems are designed to reduce the administrative resources needed to process such transactions. We support these cost-savings initiatives and encourage the university sector to continue exploring such initiatives in the future.

Business Planning and Budgeting Processes

6.30 Establishment of goals and objectives - A strategic plan sets an organization's priorities and long-term direction. A business or operational plan annualizes and provides detail of the more specific goals, priorities, resource requirements and activities to be undertaken to support achievement of the strategic plan. In our review of the universities' budget documents, we found some activities and priorities with a financial impact are described in the budget and planning documents, but other annual priorities - without a financial impact - are not articulated. These priorities and plans need to be formally documented and approved to provide guidance to all university management and staff.

6.31 Under the Universities Assistance Act, the Minister of Education may require grant recipients to report to the Minister. Other than audited financial statements, the Minister has not requested any additional reporting. The decision to prepare strategic and operational plans rests with the university. The universities visited are in various stages of developing strategic plans, but none prepare annual business or operational plans. Université Sainte-Anne does not have a strategic plan but intends to begin a strategic planning process in late 2003.

6.32 We recognize that it is difficult to prepare annual and longer-term plans with any certainty prior to knowing the amount of Provincial funding. Provincial funding is a key assumption in the development of any university budget. Traditionally, universities are notified of Provincial funding following approval of the Provincial budget which is normally after the start of the budget year. Notification to universities of 2002-03 funding was dated June 18, 2002 and notification of 2003-04 funding was dated May 15, 2003. In both years, there were subsequent adjustments to the funding. An additional $6.03 million was paid in March 2003 and, in November 2003, 2003-04 funding was reduced by $1 million.

6.33 In March 2003, the Minister of Education announced that the Province would be seeking multi-year funding agreements with universities. Planning discussions are anticipated to begin in January 2004. Universities are to provide data on the future direction of the university system. The Department will consider the discussion points and analyze the data to determine the future funding requirements.

Recommendation 6.4

We recommend that universities prepare annual business plans which are linked to strategic plans. Business plans should set out operational priorities for the year and related financial information. These plans should be approved by senior management and/or the Board (depending on the governance model in effect).

Recommendation 6.5

We recommend that the Department of Education formally notify universities of its annual funding contribution prior to the beginning of the fiscal year and that the Department strive to establish a longer-term funding commitment.

6.34 Policies and practices for planning and budgeting - The universities visited have well-documented and established practices for developing operating budgets. The larger universities make use of Budget Advisory Committees. Although these Committees have different responsibilities and membership, they typically make suggestions to senior management and/or the President on how to balance the budget. The budgets of all universities visited were approved by the respective Board of Governors.

6.35 We examined the 2002-03 budgets of Dalhousie, Saint Mary's and the University College of Cape Breton and the 2003-04 budget of Université Sainte-Anne. Of the three universities where we examined 2002-03 budgets, Saint Mary's was the only one to have its budget approved prior to the start of the budget year. The budget was approved on March 28, 2002. The University College of Cape Breton planned to have an approved budget prior to the start of the fiscal year, but the budget tabled at the March 15, 2002 Board meeting was subsequently defeated. A revised budget was approved on May 14, 2002. Dalhousie's budget was discussed in the February-March period. At that time, tuition and other fees for the upcoming year along with a motion granting interim spending authority were approved. Dalhousie presented and approved its budget at its June 25, 2002 Board of Governors meeting. Université Sainte-Anne approved its 2003-04 budget on May

2, 2003. All four universities approved balanced budgets or budgets with small surpluses.

6.36 Documentary support and review of budgets - In our examination of the university budgets we expected to find appropriate and documented assumptions supporting the budget lines selected for testing and evidence of an appropriate level of review and analysis of the budget.

6.37 Projected enrolment is one of the key assumptions underlying a university's tuition revenue budget. The tuition rate must also be considered. Tuition rates and other revenue items such as room and meal prices are approved by the University Boards. Tuition revenue is very sensitive to enrolment fluctuations. We recognize that enrolment is difficult to project, but accurate estimates are an important component of realistic budgets. Our testing of the documentation and calculations supporting the universities' enrolment projections revealed that universities considered historical enrolment trends and projections of future enrolments. Dalhousie budgeted for a stable enrolment for 2002-03, but at year end tuition revenues exceeded budget by $5.1 million (8.2%). Saint Mary's budgeted for a 2.7% enrolment increase and at year end tuition revenues exceeded budget by $2.9 million (8.0%). The University College of Cape Breton assumed a 2% enrolment decline and at year end had a favorable tuition revenue variance of $38,681 (0.3%). The Universities generally used conservative enrolment projections when preparing budgets.

6.38 We reviewed support for budgeted expenditures and other line items. Based on discussions with management and documentary evidence, there was appropriate support and an appropriate level of review and analysis of the budgets at each university.

Financial Management

6.39 Monitoring and reporting to management and the board - All universities visited had formal reporting processes in place where monthly financial reports were distributed by finance department staff to respective cost centre and senior level management. Typically, this information included comparisons of actual to budgeted expenditures. More summarized financial information is provided to university senior management and the President. The Boards of Governors meet on a regular basis and have good processes for reviewing financial information provided.

6.40 Overall, except for the limitations noted in paragraph 6.41, we found that good quality financial information was provided to Boards and management. We suggested various enhancements to individual universities including more formal variance analysis, preparation of monthly balance sheets, and monthly forecasts of results to year end.

6.41 Audited financial statements and annual financial reports - All universities visited prepare financial statements in accordance with GAAP. In some situations, GAAP permits a choice between alternative policies when preparing financial statements. We noted variations in accounting policies used by the universities. We believe that the use of common policies enables users to make more meaningful comparisons among institutions. We also noted that audited financial statements could be improved as accountability documents if a comparison of actual to budgeted expenditures was included. Saint Mary's 2002-03 financial statements, for the first time, include an audited schedule showing actual expenditures in comparison to the budget.

Recommendation 6.6

We recommend that the approved budget for the year be included on the audited statement of revenue and expenditures. This information would be useful to increase accountability for achieving the financial plan for the year.

6.42 Both Dalhousie and Saint Mary's produced annual financial reports for the year ended March 31, 2002 which include both audited and unaudited financial information. Although we encourage the preparation of such reports, we believe that better disclosure and reconciliations between the audited and unaudited information would improve the understandability of the information provided and make these reports more useful to readers. Saint Mary's changed the format of its March 31, 2003 report which greatly improved the understandability of the information.

Recommendation 6.7

We recommend that universities in Nova Scotia strive to implement common accounting policies. This would increase the comparability of financial information.

6.43 Dalhousie and Université Sainte-Anne have accounting policies which allow academic cost centre management to carry forward any unspent budget dollars for use in future years. Conversely, the policy also requires that cost centre deficits be repaid. Management at both universities indicated that this policy helps promote better fiscal management as they believe it eliminates the possibility of inappropriate spending at year end. However, there are some issues related to the policy.

- In internal financial reports, individual cost centres show actual expenditures which are exactly equal to budget and any variances between planned and actual expenditures for the year are not easily identified. In our view, this obscures the accountability for staying within the year's budgeted expenditures.

- Schedules of academic department operating results include expenditures and revenues which are actually amounts transferred to/from other years. Audit opinions have not been qualified for this matter because the amounts are either not material or the summarized financial statements show the transfers properly.

- The unspent amounts are appropriated to restricted funds (Dalhousie) or included in deferred revenue (Université Sainte-Anne) on the audited financial statements. Because the audited statements are highly summarized, it is not possible to tell how much of the total restricted funds or deferred revenue relates to accumulated unspent budget allocations.

6.44 Accumulated deficits - The March 31, 2003 audited financial statements of the University College of Cape Breton indicate that a serious accumulated deficit exists in the operating fund ($5.1 million). The seriousness of the situation has been recognized by management and the Board and a deficit reduction strategy has been developed to address the issue. The deficit is to be reduced over a maximum of eight years.

6.45 Université Sainte-Anne had an operating deficit of $659,624 as at March 31, 2002 but the merger with the Collège de l'Acadie has somewhat alleviated the problem. The financial statements for the period ended January 23, 2003 showed an operating surplus of $252,240 and those for the period from January 24, 2003 to March 31, 2003 show an additional surplus of $142,942. Université Sainte-Anne will need to increase enrolments or cut costs if it hopes to avoid future deficits, and there is no long-term plan which clearly lays out the Université's strategy for dealing with its financial problems.

Pension Plans

6.46 Nova Scotia universities participate in two basic types of pension plans.

- A defined contribution plan is a benefit plan that specifies how an entity's contributions to the plan are determined rather than the benefits to be received by an employee or the method of determining those benefits. The plan also allocates the entity's contributions to specific individuals. The future benefit for each employee is the accumulated amount of the contributions made by the entity on that employee's behalf together with the accumulated amount of any contributions made by the employee and the investment earnings on the contributions. By its nature, a defined contribution pension plan cannot have a funding deficit.

- A defined benefit plan is a benefit plan that specifies either the benefits to be received by an employee, or the method of determining those benefits.

6.47 Defined benefit plans are subject to periodic actuarial valuations. An actuarial valuation is an assessment of the financial status of a pension plan. It consists of the valuation of assets held by the fund and the calculation of the actuarial present value of benefits to be paid under the terms of the plan. If the benefits to be paid are greater than the assets, the plan will have a funding deficit. Events such as poor market performance on plan assets can result in projected plan deficits requiring additional funding from sponsors.

6.48 Of the five universities that have defined benefit plans, March 31, 2003 audited financial statements for three (Acadia, Dalhousie and Université Sainte-Anne) show funding deficits. Dalhousie's plan deficit is $115.5 million, Acadia is $9.1 million and Université Sainte-Anne shows a deficit of $2.7 million. The Pension Regulation Division of the Department of Environment and Labour supervises these registered pension plans to ensure the plans are well managed and adequately funded in order to meet obligations to pension plan members.

6.49 The following are significant points related to the pension deficits at the universities we visited.

- Dalhousie's actuarial valuation of June 30, 2001 (projected) showed an actuarial pension surplus of $15.3 million. By March 31, 2003 the plan was in a deficit position. The $115.5 million net deficit position for accounting purposes as reported in the audited financial statements is based on the market value of assets at March 31, 2003. An actuarial valuation of plan assets, which took into account longer-term market trends, resulted in a significantly lower plan deficit of $58.4 million. Dalhousie plans to contribute an additional $6.1 million per year to the plan to fund the deficit into the foreseeable future.

- Université Sainte-Anne's pension plan had a surplus of $599,000 when an actuarial valuation was performed in June 2000. In 1995 and 1999, the Université had taken a one-sided pension contribution holiday (employer missed contributions of approximately $150,000 and $400,000). At the time, the Université was in a deficit position and, by taking the pension contribution holiday, was able to reduce expenses. The contribution holiday was approved by the employees. In order to gain employee approval, the Université indicated that there would be a benefit enhancement in 2000. In July 2000, the pension benefit was enhanced. The actuaries indicated that there was sufficient surplus to take the holiday and make the enhancement, however the subsequent downturn in economic markets led to an actuarial deficit of $2.7 million (December 31, 2002 actuarial valuation - note that the plan has only 113 participants). It is important to note that the benefits under the Université Sainte-Anne pension plan, even with the enhancements, are not as generous as other public sector plans such as the Nova Scotia Public Service Superannuation plan. The Université also indicated that internally restricted funds of approximately $600,000 (restricted by the Board for CÉCANE - research into Acadian culture) may be available to apply towards the deficit. The Université is required to make total employer pension contributions of $1.3 million for each of the next three years which is equal to 491% of the employee contributions. The entire deficit will be amortized over 15 years.

6.50 We are concerned with the existence of significant pension plan deficits, as described above, at three Nova Scotia universities. These deficits will impact the future resource allocations of these universities and the funds available for operations.

Enrolment Data

6.51 Universities' enrolment data is the primary information source used by MPHEC to determine inter-provincial transfers under the Regional Transfer Arrangement. MPHEC submits enrolment data provided by the universities to Statistics Canada. This data is also an important source of information used by university management in planning processes.

6.52 Controls should exist in the universities' enrolment systems to provide assurance that the enrolment information is complete, accurate, authorized, consistent and timely. We conducted detailed testing of enrolment data at the four universities visited. Based on our testing we concluded that the enrolment systems and related controls are generally adequate. However, we noted some areas for improvement as described in the following paragraphs.

6.53 Under the current MPHEC reporting framework, all Provincial universities are responsible for the data submitted to MPHEC. Upon submission of the data, MPHEC produces Submission Status Reports in which data inconsistencies and potential errors are identified. These reports are provided to the university which is then required to 'clean up' the data for re-submission. Once the data has been received by MPHEC in an acceptable format, a final status report is prepared and provided to each university detailing remaining data inconsistencies. The universities we visited did not have processes in place to analyze and indicate resolution of the final data inconsistencies noted in the reports. We believe that these reports provide evidence of potential problem areas which should be investigated and resolved as appropriate.

Recommendation 6.8

We recommend that all universities establish a formal process to analyze and take appropriate action on all data inconsistencies identified by MPHEC.

6.54 One of the more significant data inconsistencies identified on MPHEC's final Submission Status Report, for all universities visited, related to cases where an enrolled student claimed to be a Canadian citizen but has a permanent address outside Canada. Discussions with university staff and management indicated that universities do not question the residency status of students who claim Canadian citizenship but either live or submit high school or post-secondary transcripts from institutions outside Canada. By not confirming the citizenship status of these students, universities may not be collecting international differential fees as required.

Recommendation 6.9

We recommend that universities enhance systems for the identification of foreign students and verify citizenship status of students claiming Canadian citizenship but living outside Canada or submitting transcripts from abroad.

CONCLUDING REMARKS

6.55 Overall, our testing and other audit procedures, including review of external auditors' working paper files, did not reveal any significant weaknesses in the financial management and internal controls at the universities. We communicated any specific suggestions for enhancements to the individual universities.

6.56 Each of the four universities visited has a strategic plan to guide it into the future or has plans to enter into a strategic planning process. This process should be further developed with the preparation of an annual business or operational plan with linkages to the longer-term strategic plan.

6.57 The existence of significant pension and accumulated operating deficits at some universities will impact future resource allocations and, therefore, needs to be monitored closely.

Provincial Funding by University

Exhibit 6.1

	Unrestricted Provincial Funding ($ millions) 2002-03 (3)	Provincial Funding as % of Operating Fund Revenue (2) 2001-02 (1)
Acadia University	$20.2	42.9%
Atlantic School of Theology	- (5)	41.7%
Dalhousie University	96.0	48.8%
Mount Saint Vincent University	12.1	44.1%
Nova Scotia College of Art and Design	4.4	62.1%
St. Francis Xavier University	16.7	44.1%
Saint Mary's University	19.9	35.7%
Université Sainte-Anne (4)	2.9	48.0%
University College of Cape Breton	13.6	54.4%
University of Kings College	2.9	33.8%
	$188.7	

(1) *CAUBO - Canadian Association of University Business Officers*

(2) *Operating Fund revenue as reported by CAUBO excludes revenue from sources such as research, trust funds, ancillary operations, capital and endowment funds.*

(3) *Department of Education*

(4) *Prior to merger with Collège de l'Acadie*

(5) *Funding combined with Saint Mary's University*

Exhibit 6.2

Operating Fund Expenditures and Enrolment Statistics by Institution

	General Operating Fund - Total Expenditures ($ millions) 2001-02 (2)	Full-Time Enrolment October 1, 2002 (1)	Part-Time Enrolment October 1, 2002 (1)
Acadia University	$49.3	3,924	320
Atlantic School of Theology	1.9	58	59
Dalhousie University	206.5	12,462	2,247
Mount Saint Vincent University	28.4	2,171	1,884
Nova Scotia College of Art and Design	10.7	789	129
St. Francis Xavier University	41.5	3,957	667
Saint Mary's University	56.2	5,963	1,827
Université Sainte-Anne	6.8	308	118
University College of Cape Breton	27.9	2,672	772
University of Kings College	8.3	941	22
	$437.5	33,245	8,045

(1) *AAU - Association of Atlantic Universities*

(2) *CAUBO - Canadian Association of University Business Officers*

DALHOUSIE UNIVERSITY'S RESPONSE

Thank you for the opportunity to record our comments on the findings of your Office's audit of Nova Scotia universities, and of Dalhousie University in particular. The staff from your Office were knowledgeable and efficient in carrying out their audit, and we appreciated their candor and professionalism.

In your final report there are many observations and suggestions with which we concur. In fact, we truly appreciated the many positive comments made about financial management at Dalhousie. Your report recognizes the priority which the University places on sound Internal Controls and on effective Budget Planning (you have commented elsewhere that Dalhousie's Budget Advisory Committee indeed is *"a best practice for the university sector"*). You have cited our well-documented policies regarding the collection and payment of Tuition Fees, the compliance of our Procurement Policies with the Government's ASH Sector Guidelines, our cost-saving initiatives in the area of purchasing (e.g. the use of a Purchase Card system, bulk buying with other regional universities), and our formal Financial Reporting processes. This feedback is both helpful and encouraging.

Your Recommendation 6.5 urging the Department of Education to provide Nova Scotia universities with timely notification of provincial funding levels and to establish longer-term funding commitments is of crucial importance. Being told well into our fiscal year what our grants will be, having those grants reduced more than half-way through the fiscal year, and having little idea from year-to-year of government funding plans undermines the best institutional efforts to plan and to manage responsibly. We commend and support this recommendation by the Auditor General's Office.

The University would like to place on the record the following specific comments on certain points raised in your Report.

Student Receivables (6.19 – 6.22) and Recommendation 6.1

Dalhousie continues to monitor student account balances closely, and we make appropriate collection efforts for all delinquent accounts (e.g. interest is charged, privileges are suspended, and older accounts are referred to a collection agency). We carefully mange this process by recognizing that the fall and winter terms are closely integrated, and at this time we believe that deregistering students with delinquent accounts at the end of the fall semester would be both unnecessary and overly harsh.

Computer Inventories (6.23 – 6.24)

Dalhousie follows a decentralized management philosophy, assigning responsibility to Deans and other senior managers to oversee the implementation of University Policies and Procedures in their units. The Audit Committee of our Board of Governors has reviewed this approach on several occasions as it relates to the issue of lower cost personal computer inventories and has noted its satisfaction with Dalhousie's current practices.

Business Planning (6.30 – 6.33) and Recommendation 6.4

The Auditor General's insistence on a particular format for reporting of annual business plans is not based on a University model. Our institutions have two senior governing bodies (Board of Governors and Senate), and each of these bodies receives reports and monitors progress on priorities "with no financial impact" in appropriate ways. At Dalhousie there are annual reports on progress towards meeting Strategic Plan goals. As well, there are annual reports on enrolment management (targets and achievements), campus renewal plans, fund raising, marketing, capital projects, etc. The Senate receives regular reports on the annual cycle of performance reviews of Faculties. Our planning and reporting methodologies are robust and appropriate in our opinion.

Financial Reporting (6.41 – 6.43) and Recommendation 6.6

Dalhousie's Annual Financial Reports to the Board of Governors and the wider community for many years have included budget-to-actual comparisons and explanations for significant variances (if any). Our Reports do show budget variances by cost centre, contrary to the statement made in your report. Dalhousie's audited financial statements do not include budget appropriations as revenues or expenditures. Budget documents are presented in a format which best suits the University's internal control and management requirements, which in a few areas does not correspond well with the more technical demands of generally accepted accounting principles. Our present approach has been found to be useful for our Board and our community.

Pension Plans (6.46 – 6.50)

We believe that the Auditor General's reporting on the status of pension assets and liabilities at the five universities with defined benefit plans is incomplete and inaccurate. In Section 6.48 the Report refers to the deficits in 3 of these plans which appear to have been calculated on a totally inconsistent basis. No reference to the use of different methodologies is provided to the reader. Like other plans, Dalhousie's Pension Plan is reviewed and monitored by the Province's Superintendent of Pensions. Not only has Dalhousie "*planned to contribute*" (Section 6.49) additional funds to its Plan to retire the current liability, we have been making the required additional contributions since July 2002.

Enrolment Data 6.54 and Recommendation 6.9

If a non-Canadian student were mistakenly identified as a Canadian student studying abroad, he/she would not have the proper documentation to obtain a study visa and enter the country. On this basis we do not believe that the collection of any international differential fees is being missed.

Thank you for the opportunity to have our comments circulated with your Report to the Legislative Assembly.

SAINT MARY'S UNIVERSITY'S RESPONSE

On behalf of the Audit Committee of the Board of Governors of Saint Mary's University, this is our response to your observations regarding your recent audit. At the outset, we want to thank the Office of the Auditor General for your thorough and professional review of our internal control system. We appreciate your suggestions for improvements and the University will act on each recommendation.

Your report to the legislature is quite lengthy and is in respect to all the universities audited. Therefore, core messages regarding your Saint Mary's University audit findings seem somewhat obscure in the overall report. We were pleased to note the main conclusions of the Office of the Auditor General in the following four areas that you reviewed at Saint Mary's:

Financial Management, Monitoring and Reporting

- SMU's budget process is well documented and well understood. The budget documents presented to the Finance Committee and the Board contain sufficient and an appropriate level of detail – key assumptions are explicitly stated and clearly presented. Regular financial reporting to the Board meets the standards for useful information as established by the CICA.

Internal Controls

- There are adequate internal controls over operating revenues and expenditures – no significant weaknesses were noted. There is evidence that SMU views internal control as a priority. The system in place at SMU to control its inventory of personal computers and related equipment appears very effective and should be considered a best practice for the university sector.

Procurement

- SMU has documented procurement policies which include potential conflict of interest situations. These policies support open and fair procurement. The University policy is consistent with government Procurement Policy. All procurement transactions tested subject to the government's procurement policy were in full compliance.

Enrollment Data

- Testing of a sample of data for 60 enrollments, and discussions with Registrar management, showed that SMU is accurately processing and reporting.

The Saint Mary's University Audit Committee, comprised entirely of independent Board members, is pleased to note that the conclusion of the audit of the Office of the Auditor General is that there is an effective system of internal controls in place at Saint Mary's.

We agree with your observation that there is a need for universities to enhance business planning processes by preparing operational plans, although university resources to address this are scarce. As you know, Saint Mary's produces a rolling three-year budget and is the only university in the province to do so prior to the start of each fiscal year. It would be a great assistance in our planning if the Province would also publish multi-year plans and give the universities financial information on a timely basis, since provincial funding is central to our planning.

At this time, we would also like to express our concern regarding the provincial resources available to Nova Scotia universities. Nova Scotia's base operating funding for universities was $211 million in 1992/93 and a decade later that funding is $201 million.

The result is higher tuition costs for students compared to virtually every other Province in Canada. We believe that Nova Scotia must raise the priority of consistent, long-term provincial funding to universities to ensure that our post-secondary education system is competitive and that our students of today will lead the Province tomorrow.

UNIVERSITY COLLEGE OF CAPE BRETON'S RESPONSE

The University College of Cape Breton (UCCB) Audit Committee welcomes the opportunity to provide comment on the Report of the Auditor General on Universities in Nova Scotia. Our comments are organized in a manner consistent with the specific areas of study which comprised the scope of the Auditor General review. UCCB is appreciative of the professionalism of your staff in the conduct of this review. We also accept, with thanks, the suggestions provided by your office and assure you that we will endeavor to pursue the implementation of your recommendations.

Internal Controls

The report suggests that UCCB maintains adequate internal control systems for revenue/receipt and purchases/payable cycles. UCCB concurs with this assessment. UCCB has established a policy concerning student receivable management which guides our efforts to manage monies owing the institution. Computer inventories at UCCB are adequately managed but UCCB does agree that the development of a "cradle to grave" policy concerning acquisition, utilization, transfer, and ultimate disposition of computer equipment is a laudable goal for all public sector agencies, including universities.

Procurement

As noted in the report, procurement policies at UCCB are operating in accordance with the *Province of Nova Scotia's Policy on Government Procurement - ASH Sector Guidelines*. UCCB's procurement practices and policies are open, fair, and provide for value for our institution.

Business Planning and Budgeting Processes

For the past two years, UCCB has scheduled for the tentative, subject to confirmation of provincial funding levels, approval of its annual budget in advance of the commencement of the new fiscal period. UCCB is therefore able to implement budget mandated activities in a timely manner. UCCB concurs with the recommendation that the Department of Education establish a long term funding commitment for universities as this would better enable universities to engage in multi-year planning. UCCB also notes that such a long term commitment must also address, from a public policy perspective, and provide for adequate provincial funding of the university sector. This in turn will reduce upward pressures on Nova Scotia tuition rates and enable universities to better address regular repairs and maintenance of university buildings to avoid the infrastructure problems which have plagued other sectors.

UCCB has adopted a strategic plan for a period extending to 2005. The Strategic Plan directions influence annual budgetary allocations. Significant budget assumptions are well documented and opportunities for consultation exist. UCCB's tuition revenue was within 0.3% of projected tuition for the 2002/03 period. UCCB does agree that the recommended formal linkage between the business plan and the budget is appropriate.

Financial Management

UCCB's Board of Governors receives timely and complete internal financial reports on a regular basis throughout the year. These reports include comparison of budgeted and actual results of operation. Year-end financial statements are produced in accordance with Generally Accepted Accounting Practices (GAAP). UCCB agrees that the adoption of consistent policies within the GAAP framework would improve comparability of results in the university sector. UCCB believes that the inclusion of budgeted amounts on the year end financial statements may be useful for some external users of the statements, noting that the Board of Governors has access to this information through internal financial reports.

UCCB recognizes the existence of an accumulated operating deficit, a significant portion of which is related to service awards paid to long service staff upon retirement. UCCB has adopted a deficit retirement strategy which will see the deficit retired over a maximum eight year period. This timeframe is deemed acceptable given that the funding obligation is not immediate. There are no unfunded pension obligations at UCCB.

Pension Plans

UCCB maintains a defined contribution pension plan for its employees. Accordingly, the employee bears the financial risk associated with market performance. There is no unfunded pension liability at UCCB.

Enrolment Data

UCCB works in cooperation with MPHEC in submitting enrolment data requirements mandated by their organization. There is a systematic follow-up to ensure all data supplied by UCCB meets the standards established by MPHEC.

UCCB agrees that system improvements to verify identification of foreign students should be pursued. These improvements must reach beyond the narrow scope of universities and seek a system-wide solution involving federal departments. UCCB is willing to fulfill its role in this regard.

7 OIL AND GAS EXPLORATION AND PRODUCTION

BACKGROUND

7.1 In 2001, the Government of Nova Scotia released *Seizing The Opportunity*, a document presenting the government's new energy strategy. One of the recommendations of the strategy was the formation of a new department to monitor all of the Province's energy needs and opportunities. The Department of Energy was established in June 2002 when the former Nova Scotia Petroleum Directorate and the former Energy Utilization Section of the Department of Natural Resources were combined to create the new organization. The new Department handles all matters of Provincial responsibility relating to energy resources. This includes offshore and onshore oil and gas matters, policy relating to electricity generation and use, and renewable energy regulation. Exhibit 7.2 on page 120 provides a list of the legislation and regulations the Department administers.

7.2 As part of its mandate, the Department of Energy promotes economic activities and benefits related to offshore petroleum development. This involves pursuing new employment and business development opportunities, promoting existing local industries and capabilities, and securing fair market advantage for Nova Scotia businesses. The Department endeavors to educate and advise Nova Scotians on energy issues and represents the interests of the Province during regulatory approval processes. As well, the Department is responsible for issuing and managing rights for exploration, production and storage of onshore petroleum resources.

7.3 The Department of Energy is organized into three major areas of operation - Energy Transportation and Utilization, Resource Assessment and Royalties, and Benefits and Training. The Department has budgeted expenditures of $7.6 million and revenues of $27.2 million for 2003-04, and a full-time staff of 41. All but $0.2 million of the Department's revenues are from offshore petroleum royalties.

7.4 Nova Scotia has benefited from two offshore petroleum projects. The Cohasset-Panuke project was a small oilfield development project that produced approximately 45 million barrels of oil over a seven-year period beginning in 1992. The Sable Offshore Energy Project (SOEP) started to produce natural gas and natural gas liquids in 1999, approximately when Cohasset-Panuke oil production ceased. The Department of Energy estimates that SOEP fields have yielded approximately 600 billion cubic feet of gas to date.

7.5 The Federal and Provincial governments have taken different positions concerning the ownership of offshore petroleum resources. This issue was put aside with the signing of the Canada-Nova Scotia Offshore Petroleum Resources Accord in 1986. In 1990, identical Federal and Provincial legislation called the Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation Act became law. The

Accord and Accord Implementation Acts guide offshore petroleum exploration, development and production in Nova Scotia.

7.6 The Accord and Accord Implementation Acts recognize the equality of the Federal and Provincial governments in the management of offshore petroleum resources. In 1990, the Canada-Nova Scotia Offshore Petroleum Board was created. Under the Accord Implementation Acts, all responsibilities related to offshore oil and gas activities have been delegated by the two levels of government to the Board. The Board is governed by a five-member Board of Directors. The Federal and Provincial governments each appoint two members to the Board, jointly appoint a Board Chair, and approve annual budgets. They also have the right to jointly issue written directives to the Board and review its operations. As well, certain decisions made by the Board are defined as fundamental decisions, and these must be jointly approved by the Federal and Provincial Energy Ministers before they are implemented.

7.7 According to the Accord and Accord Implementation Acts, the Canada-Nova Scotia Offshore Petroleum Board is responsible for:

- issuing rights and managing offshore oil and gas resources;
- monitoring and promoting the health and safety of offshore workers;
- ensuring offshore activities do not result in undue environmental impacts;
- reviewing, approving and monitoring industrial and employment benefits plans; and
- collecting, monitoring and distributing technical, financial and statistical data.

7.8 The Accord Implementation Acts give the Provincial government the right to tax offshore oil and gas resources as if they were onshore resources. The Province has developed a royalty regime which specifies the royalty payments that offshore project operators must pay on the sale of oil and gas produced from offshore reserves. Specific royalty regimes were developed for the Cohasset-Panuke and SOEP projects. A generic royalty regime was developed to apply to all future offshore oil and gas developments. Exhibit 7.3 on page 121 provides information on total royalties collected by the Province to date and forecasted to 2005.

7.9 There are also several Federal government departments and agencies with legislative responsibilities that affect certain aspects of offshore oil and gas development. These include the National Energy Board, Canadian Environmental Assessment Agency, Environment Canada, Fisheries and Oceans Canada, and Natural Resources Canada. The Provincial government's responsibility for regulating natural gas distribution, including offshore and onshore pipelines and licensing of marketing franchises, is administered by the Nova Scotia Utility and Review Board.

RESULTS IN BRIEF

7.10 The following are our principal observations from this audit.

- Planning is performed within the Department at appropriate times and levels of detail. The Department prepares its annual business plan in accordance with government guidelines.
- The Department has appropriate performance management processes, including the development of work-plans, regular progress meetings and annual performance appraisals. Departmental performance measures require further development and reporting on performance could be improved.
- The regulation of offshore petroleum activities is shared between the Federal and Provincial governments and is the responsibility of a separate organization called the Canada-Nova Scotia Offshore Petroleum Board. We found that the Department's responsibilities relating to the petroleum sector are clearly defined in legislation and regulations and we did not observe any unmet legislative or regulatory requirements.
- We observed efforts by the Department to participate in Federal-Provincial initiatives to make the regulation of offshore activities more efficient.
- The Department administers royalty regulations and agreements on behalf of the Province. There are a number of safeguards built into regulations and agreements to ensure only shareable revenues and expenses are used in the calculation of royalties. The Department is currently auditing revenues and costs of the Sable Offshore Energy Project. We are somewhat concerned about the length of time it is taking to complete audits.
- Approval and monitoring of oil and gas company benefit plans are responsibilities of the Canada-Nova Scotia Offshore Petroleum Board. The Department receives copies of benefit plans and contracts submitted by oil and gas companies from the Board, and uses the information to develop programs that will help Nova Scotian industries and educational institutions develop local capabilities in performing work on offshore projects.
- Legislative and regulatory responsibilities for onshore oil and gas activities are well defined and we saw no instances of unmet requirements. However, we noted a need for improvements in file documentation. We also believe there is a need to formally consider ways of addressing uncertainty and delays in administering onshore rights resulting from two government departments being involved in the process.

AUDIT SCOPE

7.11 In October 2003 we completed a broad scope audit of the Department of Energy. The audit was conducted in accordance with Section 8 of the Auditor General Act and auditing standards established by the Canadian Institute of Chartered Accountants, and included all tests and other procedures we considered necessary in the circumstances.

7.12 The objectives of this assignment were to assess the Department's:

- planning and performance management processes; and
- systems for the administration and enforcement of Provincial legislation, regulations, policies and agreements related to offshore and onshore petroleum responsibilities.

7.13 As described earlier in this Chapter, a number of responsibilities for offshore oil and gas fall to other organizations – Federal, Provincial and partnerships of the two. Our audit addressed only the systems and practices of the Department of Energy, and with the exception of one matter relating to the Department of Natural Resources, did not include any other organization.

7.14 Audit criteria were developed to assist in the planning and performance of the audit (Exhibit 7.1). The criteria were discussed with and accepted as appropriate by senior management of the Department.

PRINCIPAL FINDINGS

Planning and Performance Management

7.15 Planning - In December 2001 the Provincial Government released its energy strategy. The strategy was developed through a wide-ranging public and stakeholder consultation process with leadership and coordination by the Nova Scotia Petroleum Directorate and Department of Natural Resources. The strategy called for the establishment of a Department of Energy and set out the strategic direction and focus for the new department.

7.16 We found that the Department of Energy prepares its annual business plan in accordance with government guidelines. Senior management guides the planning process, and there is appropriate input from all levels of staff. The Department's 2003-04 business plan adopts the energy strategy's three primary goals as strategic goals of the Department. The business plan also ties into the core business areas set out in the 2003-04 Government Business Plan. However, we noted that the link between the Department's strategic goals and core business areas and priorities could be more clearly presented.

7.17 We believe planning is being performed within the Department at appropriate times and levels of detail. Based on discussions with Department management, we believe the goals, objectives and priorities outlined in the energy strategy and the Department's business plan are realistic, challenging and attainable. Some of the objectives are quantified and progress is measurable. However, more work needs to be done in this area, as discussed further in paragraph 7.21.

7.18 We observed that the Department's business plan is used to prepare division and individual work plans. The priorities of the Department are set out in documents called operational plan initiatives, and each outlines actions required to achieve the Department's objectives. Each initiative is assigned to a staff member who is required to coordinate tasks, allocate responsibilities, report on progress and generally ensure the initiative is carried out. Workplans for individual staff members are developed from these documents.

7.19 We observed that the Department's plans are clearly presented and well communicated. Key documents such as the energy strategy and business plan are available on the Department's website. Staff are informed of Department priorities and plans through meetings and discussion with management, and development of the operational plan initiatives and individual workplans.

7.20 Performance management - Performance management can be viewed as a cycle comprising planning, implementation, assessment, improvement and accountability. Our observations with respect to Department planning are discussed in the section above. We observed that the Department addresses other elements of performance management through regular meetings of senior management, divisional meetings and discussions with staff. Yearly performance appraisals are performed for all staff.

7.21 In order to determine whether intended results are being achieved, an organization needs to have credible information on the performance of its programs and services. The Department of Energy has identified four expected outcomes in its business plan, along with performance measures to track results in each area. The Department is working towards establishing baseline data for comparative purposes for two of these measures, but management acknowledged that the other two measures require further development. We encouraged the Department to continue developing its existing performance measures and to consider formulating additional measures to improve its ability to determine whether the Department's activities are achieving expected results.

7.22 Organizational accountability is enhanced through regular public reporting of results against desired outcomes. Good public performance reporting should focus on critical aspects of performance, state goals and performance expectations and relate the results achieved to the stated goals.

7.23 At the time of our audit, the Department had prepared a draft of its 2002-03 Accountability Report. This is the first such report since the creation of the Department in 2002. The final version is due for submission to the House of

Assembly by December 31, 2003. We looked at the draft document and found that it was prepared in accordance with government guidelines. The Department will not be reporting performance measures in this report, as required, because the Department is relatively new and specific measures have not been identified for the year being reported upon. We made suggestions relating to the need for more clearly stated goals and objectives and more information on reported accomplishments.

7.24 In February 2003, the Department released a progress report on the implementation of the energy strategy. Such reporting was requested by participants in the energy strategy development process. The 2003 report provides general information on actions taken to date, with some information on specific accomplishments. It describes actions to be taken in the near future and expected results. However, we believe it falls short of being a performance reporting document because it does not clearly set out targets to be achieved and actions needed to achieve them, or provide explanations for cases where targets were not met.

Recommendation 7.1

We recommend that performance reports prepared by the Department state more clearly the objectives being sought and relate the results of the Department's activities to those objectives, along with explanations if targets are not achieved.

Compliance

7.25 Legislation and regulations - The Department of Energy administers Nova Scotia legislation and regulations pertaining to the Province's responsibilities for offshore and onshore petroleum resources (Exhibit 7.2). The Department has a number of legislative powers to ensure oil and gas companies adhere to the various requirements of legislation and regulations. We noted that legislation administered by other departments, such as the Occupational Health and Safety Act and the Environment Act, also pertain to onshore petroleum activities and contain extensive enforcement provisions.

7.26 We found that responsibilities are clearly defined in legislation and regulations, and we did not find any unmet requirements pertaining to the legislation administered by the Department. We noted that all energy legislation except that related to offshore oil and gas activity is being consolidated into a new Energy Act. At the time of our audit, work was underway on most sections of the proposed legislation. The draft legislation will be released to stakeholders and the public for review and comment before being presented to the House of Assembly.

7.27 Offshore oil and gas activities - As discussed in paragraph 7.6, responsibility for administering offshore petroleum rights in Nova Scotia has been delegated to the Canada-Nova Scotia Offshore Petroleum Board. The responsibilities and operation of this Board are clearly defined in legislation.

7.28 The Canada-Nova Scotia Offshore Petroleum Resources Accord states that the objectives of the Accord are to be reviewed every five years. Although no formal review has been conducted, in May 2002 the Government of Canada agreed to the Province's request to review the objectives of the Accord, including revenue-sharing and regulatory efficiency. Discussions are currently underway between both levels of government on fulfilling the intent of the Accord.

7.29 Regulatory approval is required from several Federal departments and agencies before offshore oil and gas projects can proceed. In November 2002, Federal, Provincial and industry representatives met at the Atlantic Energy Roundtable to discuss ways to make the regulatory approval process more efficient and effective. A steering committee was established to review and make recommendations to improve the offshore regulatory regime. A benchmarking study commissioned by the committee found that the regulatory approval process for offshore oil and gas projects in Atlantic Canada takes approximately two years to complete, compared to one year for other offshore areas such as Norway, the United Kingdom and Gulf of Mexico. A second meeting of the Atlantic Energy Roundtable will be held in the fall of 2003 to discuss the report and recommendations prepared by the committee.

7.30 The Regulatory Advisory Committee, which reports to the Federal Minister of Environment, has been asked to make recommendations to improve the efficiency and effectiveness of the assessment process under the Canadian Environmental Assessment Act as it pertains to offshore exploration and development proposals. The Committee is composed of representatives from the Federal and Provincial governments, industry, environmental organizations and aboriginal groups. The Committee is to report to the Federal Minister of Environment by December 2003.

7.31 Ensuring offshore petroleum activities are conducted in a safe manner is the responsibility of the Canada-Nova Scotia Offshore Petroleum Board. The Board regulates offshore health and safety in accordance with the Accord Implementation Acts and Regulations, as well as its own health and safety requirements. Identical draft offshore occupational health and safety legislation has been prepared for Canada, Nova Scotia and Newfoundland to address Canada's east coast offshore area. It has been distributed to interested parties for feedback. It is intended that the legislation will be presented to the Nova Scotia and Newfoundland legislatures and the House of Commons in the fall of 2003.

7.32 Offshore petroleum royalties - The Province is entitled to all royalties from offshore oil and gas production, as stipulated by the Offshore Petroleum Royalty Act and regulations and as established by the Canada-Nova Scotia Offshore Petroleum Resources Accord.

7.33 The Province is currently receiving royalties under the Sable Offshore Energy Project Royalty Agreement (Exhibit 7.3). The royalty agreement establishes lower royalty rates in the early years of the project to allow the SOEP partners to recoup exploration and construction costs faster. Royalties are set at 1% of gross revenues for three years after the start of commercial production of gas. In March 2003, according to the agreement, SOEP royalties increased to 2% of gross revenues. At future dates, royalties will increase to 5% of gross revenue, and then to various percentages of net revenues (with set minimums based on gross revenues). The Regulations, as well as agreements signed with the project partners, define how these royalties are to be calculated.

7.34 The SOEP partners provide the Department of Energy with an estimate of the amount of royalties to be paid for the upcoming calendar year. In accordance with the Canada-Nova Scotia Offshore Petroleum Resources Accord, all royalty payments are made to the Federal government, which forwards them on to Nova Scotia. The Department receives monthly royalty payments based upon estimated annual royalties. The SOEP partners submit annual royalty returns which have been examined by their external auditors. Any differences between estimated and actual royalties due are settled at that time. If a SOEP partner fails to make a payment by the date specified, interest is charged on the outstanding amount.

7.35 We found there are a number of safeguards built into royalty regulations and agreements to ensure only shareable revenues and expenses are used in the calculation of royalties. The agreements specify which costs are shareable. The basis of accounting for such transactions is clearly defined and the treatment of non-arm's length transactions is spelled out. There is a process for settling disputes in this area. One major safeguard is the Department's legislative authority to audit the accounting records of the SOEP partners for royalty purposes.

7.36 We examined the Department's royalty auditing practices. We found that royalty audits are based upon an assessment of risk so that areas of higher risk receive greater attention. At the time of our audit, Department staff were auditing construction and pre-production costs incurred by the SOEP partners during the 1995 to 1999 calendar years. Most of the testing was complete. Discussions are being held with the SOEP partners in an attempt to reach agreement on an interpretation of definitions contained in the royalty agreements and whether certain costs not defined in the royalty agreements are claimable in the calculation of royalty payments. The outcome of these discussions will lay the foundation for subsequent audits. The Department is planning to issue an assessment of allowable SOEP partner costs for the 1995 to 1999 period by December 31, 2004.

7.37 We found that substantial audit work has been performed on project royalties received during the 2000 and 2001 calendar years, but there is still considerable work to do on construction and operating costs. The royalty meters, which measure the amount of gas coming ashore, have not been fully audited. However, some work has been performed with respect to the meters and the Department derives some assurance about meter accuracy by comparing reported production volumes with volumes received by gas customers. In addition, the Department is considering the contracting of a specialist in measurement procedures to assist in the audit of petroleum volumes used to calculate royalties.

7.38 We are somewhat concerned by the amount of time it is taking to bring audits up-to-date. We understand that much of the delay is a result of the on-going discussions mentioned in paragraph 7.36. Nevertheless, the Department's audit function is comprised of only two individuals, one of whom has responsibilities in addition to audit.

Recommendation 7.2

We recommend the Department review its plans for royalty audits to determine if sufficient resources are allocated to ensure audits are completed on a timely basis and address all necessary areas.

7.39 Onshore oil and gas activities - The Department of Energy is responsible for granting onshore petroleum rights under the Petroleum Resources Act. At the time of our audit, there were thirteen exploration agreements and one production agreement in effect.

7.40 We found that, although the granting of onshore rights is the responsibility of the Department of Energy, some of the administration for onshore rights is performed by the Department of Natural Resources. Before the Department of Energy was created, Natural Resources managed onshore petroleum and mineral rights with one integrated system. After the Department of Energy was created and it became responsible for onshore petroleum rights, Natural Resources retained some responsibility for administering the rights because it already had an established and integrated system. However, we were informed that there are some uncertainties and delays in the onshore petroleum rights process because of the involvement of two government departments. As well, it is not clear whether or not efficiency is being achieved by this arrangement. We understand that this issue is being reviewed by the Department of Energy as part of the drafting of the new Energy Act, discussed in paragraph 7.26.

7.41 Onshore seismic and drilling activities must be conducted in accordance with requirements specified in certain Acts and Regulations administered by the Departments of Energy, Environment and Labour, Natural Resources, and Transportation and Public Works. To help oil and gas companies propose and undertake onshore petroleum activities, a "One Window Committee" composed of representatives from each Department has been established to coordinate all activities related to onshore oil and gas exploration. Companies make presentations on their seismic and drilling proposals at Committee meetings. Requirements of legislation administered by the Departments are explained at those meetings. Company officials then work with staff of the individual Departments to obtain necessary approvals. To ensure Committee members are fully aware of each Department's oil and gas activities, various documents are shared among Committee members.

7.42 Department of Energy staff review the daily or weekly activity reports submitted by companies conducting seismic and drilling activities. Staff also monitor activities through site visits and direct communication with company officials.

Drilling sites and drilling rigs are examined by a third party inspector hired by the Department. The Department is given copies of the inspection reports and notified when deficiencies described in the reports have been corrected. At the end of each seismic and drilling program, companies submit reports to the Department on geological and geophysical data obtained and their interpretation of that data.

7.43 We examined documentation maintained by the Departments of Energy and Natural Resources for a number of exploration activities undertaken by oil and gas companies. We found that some documentation required from the companies was not in the files and we could not determine if the documents had been prepared or received. Management assured us that most required documents are received, but there are sometimes significant delays in receiving them due to technical reasons and these delays are generally not noted in the files. Also, documents are not always filed in a consistent manner and some of the items may be in other files.

Recommendation 7.3

We recommend that the Departments of Energy and Natural Resources develop monitoring procedures to ensure all documentation required has been received and is in the appropriate files.

7.44 Companies are required to clean up their work sites at the end of seismic and drilling projects and obtain releases from all property owners. The Department of Energy will request the Department of Natural Resources to release security deposits to the companies after these activities have been completed. Whereas other departments may perform a final inspection of the site and inform the Department of Energy if there is any outstanding work to be completed, Department of Energy staff generally do not visit a site before a security deposit is released. We agree with management that this is something that could be done on a sample basis to improve controls over release of deposits.

7.45 Benefits - One of the objectives of the Canada-Nova Scotia Offshore Petroleum Resources Accord and its associated legislation is to ensure Nova Scotia is the principal beneficiary of offshore oil and gas resources. Benefits to the people and economy of Nova Scotia include:

- the payment of royalties, Provincial corporate income taxes, municipal property taxes and other taxes by oil and gas companies;
- increased career and employment opportunities for Nova Scotians;
- increased skill levels of Nova Scotians and the ability to use these skills in other employment opportunities;
- increased university and other research and development; and

- the potential to develop a petrochemical industry and other energy intensive industries.

7.46 Nova Scotia's royalty system is designed to encourage oil and gas development by setting a lower royalty rate in the early years of a project. The Province's share increases as the project's capital investment is recovered and a reasonable rate of return is achieved. In a report entitled *Atlantic Petroleum Royalties: Fair Deal or Raw Deal?* prepared for the Atlantic Institute for Market Studies, the author concluded:

> "*The royalty regimes in both Nova Scotia and Newfoundland are competitive when compared with relevant international practice. Thus the regimes are not vulnerable to criticism that the governments are not getting fair value for the resources on behalf of their citizens. By the same token, the fact that industry has endorsed the regimes and is making investments under them suggests there is no compelling need for reductions. Governments are not trying to grab too much and producers are not enjoying a free ride.*" (G.C. Watkins, June 2001, page vii)

7.47 Under the Accord, the Federal government may be required to make a 'crown share adjustment' payment to the Province based upon oil and gas company profits from offshore projects. No payment has yet been calculated or paid in accordance with this clause. Federal regulations defining how this payment is calculated are necessary before any amounts owing can be determined. Since May 2002, the Office of Intergovernmental Affairs has been coordinating discussions on behalf of the Province with Natural Resources Canada on this and other issues related to the offshore.

7.48 In 1999, the Sable Offshore Energy Project partners signed seven agreements with the Province to address a number of issues. Under the Scotia Benefits Fund Agreement, the Province established a Scotia Benefits Fund to which SOEP partners would contribute a total of $14,126,000 over seven years. Amounts received under this agreement are deposited to this Fund. However, the Funds are transferred to the general revenues of the Province at a later date because the stated purpose of the Fund is for "benefiting the economy, people or government of Nova Scotia."

7.49 Under the Nova Scotia Market Development Agreement, the SOEP partners are providing the Province with $20 million over the initial ten years of the project to promote the use of natural gas. The Province announced that $14 million would be directed towards helping individual Nova Scotians, small businesses and institutions use natural gas. The remaining $6 million will go toward customers already using natural gas in the Province and expanding the pipeline system beyond the approved franchise area.

7.50 Under the Nova Scotia Training, Research and Development Agreement, the SOEP partners were required to transfer an operations training simulator to a training or educational institution in Nova Scotia by January 2002. The transfer has not occurred, upon the request of the SOEP partners. The Department is negotiating with the partners to make alternate arrangements concerning the training simulator. As well, an Advisory Council on Training and Research and Development was not established as required by the agreement. The SOEP partners have instead provided funding to the Petroleum Research Advisory Council for research and development purposes.

7.51 The Accord Implementation Acts require oil and gas companies to submit benefit plans to the Canada-Nova Scotia Offshore Petroleum Board for any proposed exploration and development projects. Companies must commit in their plans to the principles of providing "full and fair opportunity" and "first consideration" to Nova Scotians and Nova Scotia companies in procurement, employment, training, research and development. The Accord Implementation Acts do not specify targets for Nova Scotia or Canadian content and participation. Oil and gas companies are required to submit yearly benefit reports to the Board. A Federal-Provincial Benefits Review Committee has been established to review benefit plans and reports, discuss benefits-related issues and provide advice to the Board. The Department of Energy is provided with copies of all benefit plans and reports submitted to the Board, as well as reports on offshore contracts awarded by oil and gas companies. This information is recorded in a database maintained by the Department and used to develop programs that will help Nova Scotian industries and educational institutions develop local capabilities in performing work on offshore projects.

7.52 Development of Nova Scotia's offshore is relatively new compared to other well-established areas, such as the Gulf of Mexico and the North Sea. Finding oil and gas in the offshore is very expensive and risky, and the amount of proven reserves off Nova Scotia is still relatively low. Uncertainty over the size of undiscovered resources means that some flexibility in Federal-Provincial policy making with respect to requirements placed on oil and gas companies is required if Nova Scotia is to compete with other parts of the world that offer similar or better potential. At the November 2002 Atlantic Energy Roundtable, discussed in paragraph 7.29, a task force was created to explore ways to improve industrial benefits and business opportunities from offshore activities. The task force is expected to report on its findings at a second meeting of the Roundtable, scheduled for the fall of 2003.

7.53 Onshore exploration agreements are awarded based upon the dollar value of the exploration programs. Companies are encouraged to employ Nova Scotians and use Nova Scotia goods and services. Starting in 2002, companies were required to submit annual benefit reports, with the first reports due to the Department in the fall of 2003.

CONCLUDING REMARKS

7.54 The Department of Energy has appropriate systems and processes for planning and performance management. We believe Departmental efforts to formulate and report against performance outcomes could be further developed and expanded, and performance reporting could provide more detailed information on Department performance with respect to its predetermined objectives.

7.55 Department systems and practices relating to compliance with legislation, regulations and agreements are appropriate. We believe more attention should be given to royalty auditing, and more care should be taken to ensure all required reporting for onshore oil and gas activities is received and properly filed.

Audit Criteria

Exhibit 7.1

Audit criteria are reasonable and attainable standards of performance and control, against which the adequacy of systems and practices can be assessed. They relate to the audit objectives developed for an assignment and are used to design detailed audit tests and procedures.

The following criteria were used in our audit of the Department of Energy.

- Planning should be an integral element of the management of the Department and address all critical aspects of the Department's operations and responsibilities. Planning should be performed at appropriate stages and levels, based on sufficient, appropriate information. Planning should focus on goals and objectives and means of achieving them. Goals and objectives should be realistic, attainable, challenging, prioritized and preferably quantifiable and measurable. There should be clear responsibilities, resource requirements, timelines and monitoring procedures for the achievement of planned goals. Plans should comply with government format and content guidelines and be appropriately approved. Plans should be clearly presented and communicated to individuals and groups affected by them.
- Performance management should focus on all significant aspects of Departmental operations. Goals and targets, and means of achieving them, should be set for key areas of operation. There should be appropriate systems for gathering accurate and complete performance information. Performance should be measured and monitored on a regular and timely basis. Performance information should be reported on a comparative basis, significant variances should be investigated and explained, and plans should be developed for addressing inadequacies in performance.
- The Department should comply with applicable provisions of Provincial legislation, regulations and agreements. The Department's objectives, strategies and policies should be consistent with Provincial legislation and regulations. Authorities and responsibilities for the enforcement of Provincial legislation, regulations and agreements should be clear. There should be procedures to ensure Provincial legislation, regulations and agreements relating to responsibilities residing outside of the Department are appropriately enforced.

Exhibit 7.2

Legislation Administered by the Department of Energy

Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation (Nova Scotia) Act
- Nova Scotia Offshore Area Certificate of Fitness Regulations
- Nova Scotia Offshore Area Oil and Gas Spills and Debris Liability Regulations
- Nova Scotia Offshore Area Petroleum Diving Regulations
- Nova Scotia Offshore Petroleum Drilling Regulations
- Nova Scotia Offshore Area Petroleum Geophysical Operations Regulations
- Nova Scotia Offshore Area Petroleum Installations Regulations
- Nova Scotia Offshore Area Petroleum Production and Conservation Regulations

Energy Resources Conservation Act
- Gas Plant Facility Regulations
- Onshore Petroleum Geophysical Exploration Regulations

Energy-efficient Appliances Act
- Energy-efficient Appliances Regulations

Gas Distribution Act
- Gas Distribution Regulations
- Board Gas Distribution Regulations (Nova Scotia)

Offshore Petroleum Royalty Act
- Offshore Petroleum Royalty Regulations

Petroleum Resources Act
- Petroleum Resources Regulations
- Onshore Petroleum Geophysical Exploration Regulations
- Onshore Petroleum Drilling Regulations

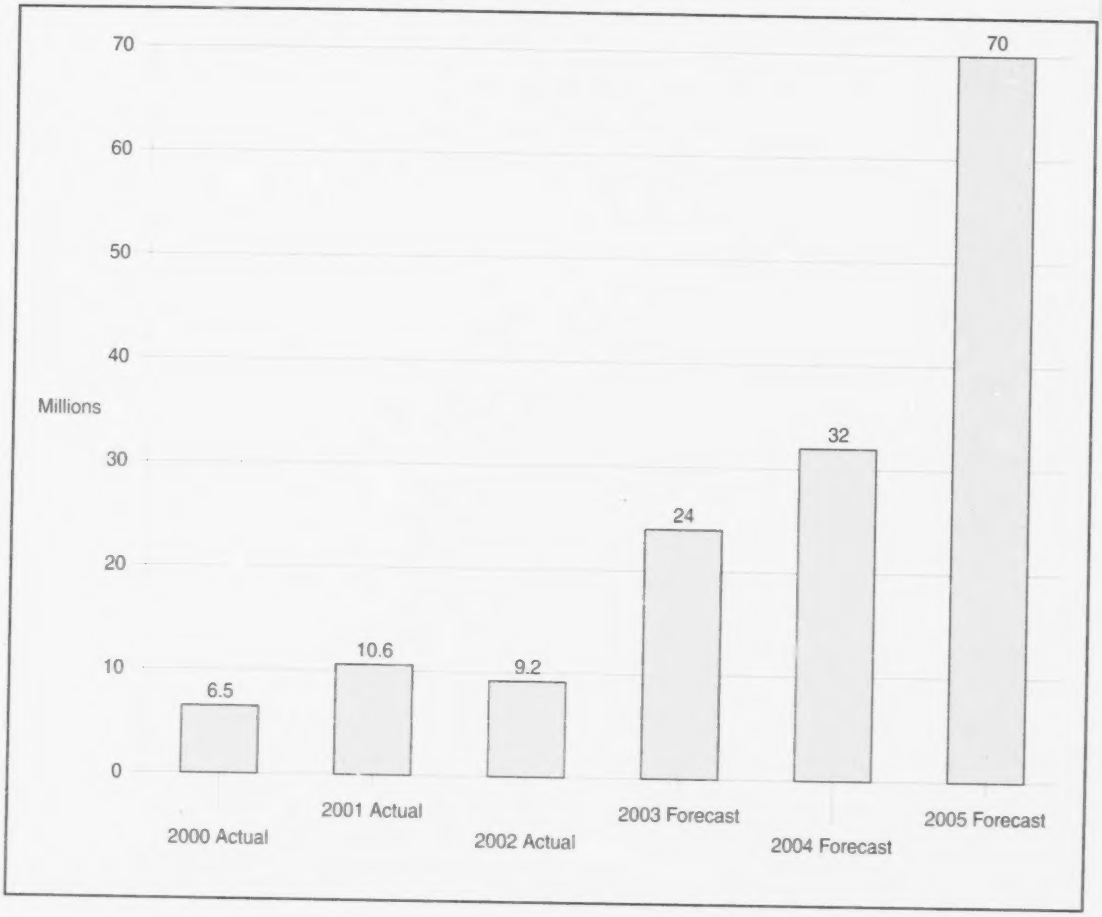
Petroleum Resources Removal Permit Act
- Petroleum Resources Removal Permit Exemption Regulations

Pipeline Act
- Land Acquisition Regulations
- Pipeline Benefits Plan Regulations
- Pipeline Regulations (Nova Scotia)
- Gas Plant Facilities Regulations

Underground Hydrocarbons Storage Act
- Underground Hydrocarbons Storage Regulations

Nova Scotia Oil and Gas Royalty Revenues

Exhibit 7.3



Notes:

- *All royalty revenues in the above chart are from the Sable Offshore Energy Project (SOEP) and are on a calendar year basis.*
- *Actual figures for years 2000, 2001 and 2002 are subject to audit by the Department of Energy.*
- *Forecasted figures for 2003, 2004 and 2005 represent April 2003 estimates of the Department of Energy based on information from the SOEP partners and the Canada-Nova Scotia Offshore Petroleum Board. Royalty forecasts are subject to volatile and unpredictable fluctuations in gas prices, as well as to changing estimates of recoverable hydrocarbon reserves. Accordingly, forecasts are updated as new information arises.*
- *The Department estimates that $1.6 to $2.3 billion of royalty revenues will be received from SOEP by its forecasted completion in 2020.*

DEPARTMENT OF ENERGY'S RESPONSE

The Department of Energy has reviewed the report and findings of the Auditor General and is in agreement with the results and recommendations of the audit. The following comments pertain to the three recommendations contained in the report.

We recommend that performance reports prepared by the Department state more clearly the objectives being sought and relate the results of the Department's activities to those objectives, along with explanations if targets are not achieved. The Department of Energy will have a complete set of performance measures, with baseline data and targets, in its 2004/05 business plan. Once the initial set of performance measures have been established, the Department will consider the creation of additional measures for subsequent business plans. The Department also intends to update its Energy Strategy Progress Report early in calendar 2004, and will clearly report on progress made against specific Energy Strategy Targets with explanations where those targets have not been met.

We recommend the Department review its plans for royalty audits to determine if sufficient resources are allocated to ensure audits are completed on a timely basis and address all necessary areas. The Department agrees that the existing resources that are currently dedicated to administrating the royalty agreements need augmentation. In this regard, it is planned to contract specific audit assistance in the January/February 2004 time frame. In addition, the Department continually monitors new developments and will add additional audit and administration staff, as required, to ensure timely and effective completion of audits.

We recommend that the Departments of Energy and Natural Resources develop monitoring procedures to ensure all documentation required has been received and is in the appropriate files. The Department of Energy has recently discussed this issue with Natural Resources as it was agreed that in the short term the Registrar of Mineral and Petroleum Titles (Natural Resources), and the Senior Geologist and Rights Administrator (Energy) will keep each other more regularly notified of obligations of agreement holders, as well as documents received in accordance with existing agreements. In the medium term, the Energy Act will specify both the new responsibilities of the Department of Energy with respect to duties currently performed by the Registrar of Mineral and Petroleum Titles and the interaction between Energy and Natural Resources in this regard.

Finally, the Department wishes to express its appreciation to the Auditor General for its review and valuable contribution to the administration of energy issues in Nova Scotia.

8 IWK HEALTH CENTRE

BACKGROUND

8.1 The IWK Health Centre was created following a joint proposal to merge the IWK Hospital for Children and the Grace Maternity Hospital. The Izaak Walton Killam Health Centre Act was proclaimed in 1997 and amended in 2001.

8.2 The Health Centre is located in Halifax. It is a tertiary care facility that uses a program-based model of care to serve women, children and families throughout the Maritime provinces. There are approximately 5,000 babies delivered at the IWK each year. Of nearly 72,000 patient days spent in the Health Centre in 2001-02, approximately 64,000 or 89% related to Nova Scotia patients, with the remaining 11% related to out-of-province patients. The Health Centre employs more than 2,400 staff and has 101 adult beds, 110 baby beds and 121 children's beds.

8.3 When the Province established District Health Authorities (DHAs) in 2001, the IWK was given status as one of two Provincial Health Care Centres (PHCCs) under the Health Authorities Act. The accountability relationship established by this Act applies to the IWK Health Centre as well as DHAs. The other PHCC, the Queen Elizabeth II Health Sciences Centre, is governed by the Board of the Capital District Health Authority. The IWK is the only organization that does not come under the authority of a DHA.

8.4 The IWK and the Capital District Health Authority signed an Affiliation Agreement in June 2001. This is discussed further in paragraph 8.26 of this report.

8.5 The Health Centre's revenues for 2001-02 were $118.3 million (2000-01: $110.6 million) and expenses totaled $117.4 million (2000-01: $108.5 million). The Province's grant to the Health Centre comprised $108.4 million of the $118.3 million in revenues in 2001-02. The IWK Foundation contributed $2.7 million for capital equipment purchases and $6.1 million in specific purpose grants (use of funds is restricted either by donor or Foundation) for total contributions to the Health Centre in 2001-02 of $8.8 million. Historically the IWK Health Centre has operated without a deficit. As at March 31, 2002, the accumulated balance in the Health Centre's operating fund was $0. The Health Centre's expenditures exceeded budget by approximately $3.2 million for 2002-03. The Department of Health informed the IWK that DOH will provide funding to cover this amount.

8.6 Our last audit of the IWK was conducted in 1993, prior to the merger of the IWK and the Grace Maternity Hospital, and involved the children's facility only. The financial statements of the Health Centre are audited by a public accounting firm.

RESULTS IN BRIEF

8.7 The following are the principal observations from this audit.

- The Health Centre uses the Carver model of Board governance. This model is applied differently from other health facilities we have audited in the extent to which decisions are delegated by the Board to management. For example, the Health Centre CEO has the responsibility to approve the business plan whereas in other organizations this responsibility would remain with the Board. The Health Centre Board takes its responsibility for governance very seriously and has established a framework that, although different from other organizations, is strongly supported by governance literature.

- The IWK Health Center has a well-established process for developing the annual business plan and budget. Appropriate levels of management contribute to this process. Cost savings initiatives are allocated to program budgets. However, operational plans developed to achieve budget reductions are not formally documented and the results of specific savings initiatives are not tracked. Operational plans should be formally documented. Actual savings from budget reductions should be monitored and corrective action taken if savings are not realized.

- The Health Centre's expenditures exceeded budget by $3.2 million for 2002-03. The Department of Health has indicated it will provide funding to cover this amount.

- The Canadian Council on Health Services Accreditation (CCHSA) conducts an accreditation review on all accredited health services organizations every three years. The IWK Health Centre received an unqualified accreditation in 2002, which is the highest level of accreditation. The CCHSA noted that the Centre's system for drug distribution results in a higher risk of medication errors than in comparable facilities. We have recommended that the Centre investigate the risks associated with this matter and consider whether it would be appropriate to make changes on a more timely basis than is currently planned.

- The IWK's annual financial statements do not discuss the relationship between the Health Centre and the Foundation. The IWK and the Foundation are related parties and the IWK's financial statements should disclose certain information such as any transactions between the parties during the fiscal year.

- The Health Centre continues to make progress in establishing systems to monitor and report indicators of economy and efficiency such as lengths of stay. We recommend that the Health Centre continue to work with other facilities and organizations such as the Department of Health and the Canadian Institute for Health Information to further develop targets, monitor performance and make comparisons between facilities.

AUDIT SCOPE

8.8 The objectives of this assignment were to:

- determine whether the IWK Health Centre has adequate planning and monitoring processes;
- determine the quality assurance systems and control procedures in place relative to the quality of data submitted to CIHI;
- review the Hospital's audited financial statements and the results of external and internal audits and the Canadian Council on Health Services Accreditation's most recent survey;
- determine compliance of the procurement function with Government Procurement Policy and whether accounting controls over pharmacy inventory are adequate; and
- determine if the IWK monitors whether certain resources are being utilized with due regard for economy and efficiency, and whether systems provide adequate information to support such monitoring.

8.9 Audit criteria were taken from recognized sources including *Standards for Acute Care Organizations* - The Canadian Council on Health Services Accreditation, *Financial Management Capability Model* - Office of the Auditor General of Canada and Treasury Board Secretariat, *Auditing of Efficiency* - Office of the Auditor General of Canada and the *Nova Scotia Government Procurement Policy*. Our audit included interviews with management and staff, examination of documentation and review of external auditor's working paper files.

PRINCIPAL FINDINGS

Planning and Monitoring

8.10 Background on governance - In 1998, one year after amalgamation, the Board introduced, on a trial basis, the Carver model of Board governance (*Boards That Make A Difference, A New Design for Leadership in Nonprofit and Public Organizations*, John Carver). This model is used in many not-for-profit organizations, although other organizations we have audited do not apply the model in the same way as the Health Centre. Following the two-year introduction phase, the Board formally accepted full implementation of this model. In applying the model, distinction is made between Board and management responsibilities. The thrust is that the Board shall govern, and through the President and CEO, direct the affairs of the Health Centre. The Board focuses on policies and monitoring and does not provide detailed direction in day-to-day management. The CEO and CFO are formally charged with specific fiduciary responsibilities which set out their limits of authority, responsibilities and formal reporting requirements. These individuals then organize the management structure and processes below them to ensure the fiduciary responsibilities are satisfactorily completed and reported upon.

8.11 The detailed governance policies are formal and clear. The Board relies on the President and Chief Executive Officer (CEO) and the Chief Financial Officer to provide formal reporting of progress in achieving various objectives and any major risks impeding achievement of the established objectives. The IWK's Board of Directors *Governance Policies* include a policy on fiduciary responsibility which states "*The President and CEO shall not fail to establish and implement multi-year business plans which support the establishment ends of the Health Centre and which is balanced within plus or minus one percent revenues annually and do not exceed revenues within a 24 month cycle.*"

8.12 The primary difference between governance at the Health Centre and other organizations we have audited is the extent to which decisions are delegated by the Board to management. For example, the Health Centre CEO has the responsibility to approve the business plan whereas in other organizations this responsibility would remain with the Board (see paragraph 8.14 below). The Health Centre Board takes its responsibility for governance very seriously and has established a framework that, although different from other organizations, is strongly supported by governance literature.

8.13 The Board Affairs Committee is currently reviewing the information the Board receives and the role of the Board versus the CEO to determine whether there are any changes which should be made in the implementation of the Carver model. Current plans are for this process to be completed by fall 2003.

8.14 Strategic planning process - The Board is required through the bylaws to develop and review on a regular basis the mission, objectives and strategic plan of the Health Centre. The CEO is responsible to assist the Board in establishing and maintaining the overall strategic directions of the Health Centre, including the business plan.

8.15 The process for preparation of the 2001-05 strategic plan was extensive and included review of information on the health and health needs of children, youth and women in the Maritimes and consultation with staff and patients of the IWK, physicians, members of Community Health Boards and others. Four key directions were selected. The Board reviewed the strategic plan and verified that outcomes developed matched the Board's overall goals.

8.16 An accountability framework was developed whereby staff are assigned responsibility for projects and progress is reported bi-monthly to the project coordinator. Senior management monitors overall progress and provides quarterly reports to the Board. External updates are included in the IWK's annual report, community updates and other publications.

8.17 Linkage to business plan - The four key directions established in the strategic plan are broken down into a number of goals which drive the business planning process. The Health Centre holds an orientation/information session in November of each year for all staff with business planning responsibilities.

8.18 In late fall, the Department of Health advises the IWK Health Centre of the Department's financial expectations. Generally, budget preparation is based on maintaining a status quo budget and identifying cost drivers. New or expanded programs are identified and prioritized and any initiatives approved by DOH are included in the Health Center's budget.

8.19 The IWK Health Centre follows a program-based model. Each program area is comprised of several care teams such as Emergency, Special Care Nursery or Childbirth. Each care team develops its own business or service plan based on best practices and may request new or expanded programs. Service plans are reviewed and challenged at the program level before final funding decisions are made.

8.20 The care teams' service or business plans are consolidated to form a program business plan. Each program director is responsible to ensure the accuracy of the program area's budget submission and reasonableness of assumptions included in the plan.

8.21 The Health Centre business plan is developed from information in the program business plans using a template provided by DOH. The budget control officer uses the care team budgets but does not verify any formulas used by the care teams in totaling budgets. There is no independent verification (e.g., by Internal Audit) to ensure the mathematical accuracy of the budget submissions or the final, summarized budget for the Health Centre.

Recommendation 8.1

We recommend that the Health Centre institute a quality assurance process for the budget, including an independent review by someone other than the preparer, such as the internal auditor.

8.22 The Health Centre business plan is reviewed by senior management. Staff at the IWK informed us that SMT (Senior Management Team) performs a detailed review and challenge of the business plan and budget and SLT (Senior Leadership Team) performs a higher level review and challenge. There is no documentation of the two levels of senior management review and challenge. Although certain high level, Health Centre-wide initiatives to reduce expenditures are noted, not all decisions which impact program funding are formally documented. Health Centre management stressed the importance of maintaining the confidentiality of initiatives under consideration because of implications for individual staff. We recognize the need to maintain confidentiality; however, we believe the Health Centre should strive to document approved budget initiatives to ensure everyone understands the action to be taken.

Recommendation 8.2

We recommend that the Health Centre strive to document all initiatives approved during the review and challenge of the business plan and budget.

8.23 Following notification of the funding level from DOH, the Health Centre reviews the total available funding as compared to the budget requests. Certain Health Centre-wide targets such as maintaining staff vacancy rates are identified by senior management. The available funding is allocated to the various program areas and the programs are responsible for living within these budgets.

8.24 The Health Centre noted a lack of DOH or Executive Council approval or disapproval of specific initiatives in the Centre's business plan. Certain initiatives may affect service delivery or staffing and the Health Centre may not know the Province's position until much later in the year. This lack of clarity impacts on the IWK's ability to prepare operational plans on a program basis. In our 2002 Annual Report (Chapter 8 - Accountability of District Health Authorities), we noted that *"accountability would be improved if DHA business plans were submitted to Executive Council as provided in the [District Health Authorities] Act...and Executive Council formally approved, with documentation, DHA planned initiatives in addition to the funding approval. This would help to clarify the government's performance expectations for the DHAs."*

8.25 Operational plans are a key component to living within the available budget dollars. These plans detail how reductions will be achieved to ensure the budgetary targets are met. During the business planning process for 2002-03, the IWK identified a number of initiatives to help provide for a balanced budget. These included maintaining a 1% staff vacancy rate, reducing education funding, implementing an initiative with the Capital District Health Authority (CDHA) for laundry services and other reductions within the various program areas for a total of $3 million. Clinical service plans developed to support the original budget request were not updated to reflect actual funding available. Staff at the IWK informed us that there are plans on how to deal with budget shortfalls in program areas but these plans are not formally documented. The IWK's projected deficit for 2002-03 was $3.2 million. After year end, DOH informed the Health Centre that it would provide funding to cover this amount.

Recommendation 8.3

We recommend that operational plans be formal and written. This would ensure that staff have plans in place to fully address any budget shortfall and provide better accountability for funds.

8.26 Joint planning with CDHA - The Health Authorities Act requires that the IWK and the Capital District Health Authority submit a joint business plan. *"The Capital District Health Authority, the Nova Scotia Hospital and the provincial health-care centres shall prepare* *and submit a joint health-services business plan…"* (Section 69(1)) Management at the IWK interpret this to mean that the Health Centre should collaborate with the Capital District in planning as opposed to preparing a written joint plan. The Health Centre has an Affiliation Agreement (signed June 2001) with the CDHA and management believes it meets the requirements under the Act. This Agreement deals with joint administrative initiatives such as shared services for laundry. The Agreement refers to formal evaluations of any joint administrative initiatives as well as annual reports. To date, there have not been any evaluations or annual reports. Staff at the Health Centre informed us that they would provide this information to the Department of Health if requested. The IWK and CDHA have also implemented joint clinical initiatives in many areas such as MRI (magnetic resonance imaging) and transition of patients reaching age 16 to adult care. Clinical initiatives often originate with staff in these areas and are not necessarily itemized in the business plans of the IWK or CDHA.

Recommendation 8.4

We recommend that the Health Centre comply with the provisions of the Health Authorities Act and the Affiliation Agreement relating to joint planning and shared services. Such services should be formally reported upon and evaluated as required.

8.27 Capital budget process - The Health Centre appears to have a well-established capital budgeting process. Capital requests are first prioritized at the program level. The Capital Equipment Committee then reviews all capital requests and prioritizes the requests Health Centre-wide. Once the available capital funding is known, it is allocated to capital projects or purchases based on this prioritized list

8.28 The IWK's Health Services Business Plan submitted to DOH requested $23.3 million in capital funding for 2002-03. The Health Centre has a plan for the redevelopment of the children's portion of the facility over a five-year period, at a total cost of $37.5 million. Part of the capital request to DOH for 2002-03 related to costs for the first year of this plan. The Health Centre has not received any indication from DOH that they are willing to fund a portion of these redevelopment costs. The IWK will not move forward with this project until they have a funding commitment from the Department. The business plan also indicates the Health Centre expects to receive an additional $5.6 million in capital funding from other sources such as the Foundation.

8.29 The Department of Health no longer allocates funding between capital and operating. DHAs and the IWK receive an operating grant and can decide to spend a portion of this on capital if they choose. Although capital funding requests are included in the Business Plan each year, DOH does not specifically approve capital purchases other than major projects which are specifically funded. IWK staff informed us that for 2002-03, $880,000 of $126.6 million in total Health Centre revenues (which includes DOH and other sources) was allocated to capital purchases.

8.30 The Department of Health also has a separate process for DHAs and the IWK to apply for urgent capital requests during the year. This is not part of the annual budget process and is reviewed on a per request basis. The Health Centre received $1 million in funding under this process in 2002-03.

8.31 Board involvement - The Board receives the Center-wide business plan which includes the service plans and operating budget for the program areas. Senior management is responsible for completing the business planning process. The Board receives information on Center-wide business planning activities, funding requirements and discussions between DOH and the IWK to finalize the budget.

8.32 Monitoring and forecasting - The Health Centre distributes monthly financial reports to staff with budget responsibilities. These reports are more detailed at the cost centre level and are summarized for the care team and program levels. Monthly financial statements and a cash flow projection are also forwarded to the Board of Directors for information. Staff, management and the Board are satisfied with information received and believe the information is provided on a timely basis.

8.33 There is a formal quarterly variance review process which starts at the end of the first quarter. Program staff provide variance explanations to respective program directors as well as the budget control officer. The budget control officer produces a variance analysis for the Health Centre from the program information. Finance staff informed us that all variances in excess of $1,000 require explanation. We suggested that this limit and other relevant expectations be documented in a policy and communicated to staff.

8.34 During the 2002-03 budget process, the Health Centre identified specific reductions for DOH to help achieve the Centre's budget targets. All cost savings initiatives, with the exception of shared laundry services, were allocated to program budgets. These initiatives were then monitored through the Health Centre's regular process which compares cost centre expenditures to budget. However, the results of specific savings initiatives were not monitored, compared to projections and reported. As a result management has not reported whether projected savings were achieved and neither the Department of Health nor the Health Centre has the necessary information to monitor the success of these specific reduction initiatives.

Recommendation 8.5

We recommend that management monitor and report during the year on specific savings initiatives approved during the Business Planning process.

New Parking, Retail and Research Facility

8.35 The IWK is constructing a $16 million parking, retail and research facility. An external consultant was engaged to study the traffic/parking demand and conduct an internal staff survey dealing with support or utilization of the retail facilities. A cash flow projection was completed, utilizing information from the two studies mentioned above, and reflects a positive net cash inflow of approximately $100,000 per annum flowing from the project. The business case was reviewed and challenged internally and also reviewed by the Departments of Health and Finance. The financial planning, review and challenge appear adequate. However, these are forecasts and if the forecast is not achieved, then debt servicing costs will have to be funded from general revenue, ultimately by the Province.

8.36 In January 2003, the Health Centre received Order in Council approval to borrow $16 million through the Municipal Finance Corporation to fund the project. Section 33 of the Health Authorities Act and section 59C of the Provincial Finance Act require government approval for borrowing transactions. In October 2003, a new Order in Council was approved which authorizes the Minister of Finance to loan up to $16 million to the IWK for the project for a term not to exceed 20 years. The Department of Health indicated that the source of financing was changed after discussions with the Municipal Finance Corporation and the Department of Finance. The Health Centre acquired the land for this facility from the Halifax Regional Municipality at a cost of $700,000. Section 30 of the Health Authorities Act requires that capital expenditures be included in the approved Health Services Business Plan or have prior written approval of the Minister. This transaction was not included in the Health Centre's business plan and Ministerial approval was not obtained. However, DOH funded the land purchase which implies approval.

Systems for Collection of CIHI Data

8.37 Background - The Canadian Institute for Health Information (CIHI) is a not-for-profit corporation that provides health information. All of Nova Scotia's publicly-funded acute care facilities are required by way of a provincial/territorial bilateral agreement to submit health data to CIHI. This data is then used by CIHI to develop and maintain national health information standards, databases and registries.

8.38 On September 30, 2002 the Department of Health released a report on the Province's health indicators to fulfil a commitment by all provincial jurisdictions and the Federal government to issue reports on comparable health indicators. This document was titled *Reporting to Nova Scotians on Comparable Health and Health System Indicators: Technical Report* and we provided an audit opinion on the accuracy of data and adequacy of disclosure. However, we could not provide assurance on reported indicators originating from CIHI's Discharge Abstract/Hospital Morbidity Database due to a lack of documentation of CIHI quality assurance processes at the national level. Since the data in the Discharge Abstract/Hospital

Morbidity database originates from hospital patient records which are extracted and submitted to CIHI by individual hospitals, we decided to examine the controls over this process at the IWK Health Centre. Our objective was to review the controls and quality assurance processes in place at the entity level over data collected and submitted to CIHI.

8.39 Edit checks on CIHI data - The IWK is required to send abstracted data to CIHI monthly. Our testing of the IWK's various edit checks over the abstraction process revealed that improvements are required. The IWK's coding software permits patient files to be processed even if certain mandatory fields are left empty. This deficiency in the software increases the potential for the IWK to send incomplete health information to CIHI.

8.40 All abstracted data is edited by the Health Centre before and after submission to CIHI. The editing of health information involves running various computerized tests on the abstracted data both at the Health Centre and CIHI level. The IWK is responsible to amend all abstracted information identified by CIHI to be incorrect. The Health Centre does not reconcile data corrections to original CIHI edit reports. As a result, the IWK cannot be sure that all errors are corrected before data is submitted to CIHI for final processing.

Recommendation 8.6

We recommend that the Health Centre, in conjunction with the facility's supplier of abstraction software, make necessary changes to assure that all mandatory fields must be completed before data can be submitted to CIHI. Also, all error reports received from CIHI should be retained and a process implemented to ensure all corrections are made.

8.41 The Department of Health and its counterparts in other provinces have recently become aware of problems in the comparability of CIHI data among jurisdictions due primarily to system changes at CIHI. This has impacted the availability of benchmarking data for the IWK, District Health Authorities and acute care facilities in other provinces. The provincial Departments of Health and CIHI are working towards finding a solution to the identified problems.

Systems for the Collection of Radiology Billing Information

8.42 During the current year, we conducted a separate audit of payments to physicians (see Chapter 10 of this Report) and noted that radiology and pathology claims by physicians are billed differently from traditional fee-for-service claims. Most physicians paid under a fee-for-service payment scheme submit a separate claim for each patient. Radiology and pathology billings consist of paper reports showing totals by procedure only with no patient specific information.

8.43 During our audit of the Health Centre, we examined procedures surrounding radiology billings. IWK radiologists are compensated on an alternate funding basis. Under this method of compensation, physicians are paid a contract amount by Atlantic Blue Cross Care (ABCC - contracted by DOH to process and pay physician fee-for-service claims and alternate funding payments). These physicians must still submit shadow billing information to ABCC. The shadow billing information allows the Province to monitor activity levels and the cost effectiveness of alternate funding arrangements by illustrating what a physician would have been paid under the fee-for-service system.

8.44 Although responsibility for the accuracy of the shadow billing information rests with the physician group, the information is taken from the Health Centre's Meditech system. During the course of our audit, we performed verification procedures on three radiology claims. We found one claim was overstated because one procedure had been recorded twice. Our verification shows that the current method of capturing data for shadow billing can misstate monthly radiology activity levels. This would not impact the amount paid to the radiologists at the Health Centre but would affect the accuracy of the statistical information.

Recommendation 8.7

We recommend that the Health Centre ensure the Meditech system, which is used to support radiologists' submissions to the Department of Health, accurately reflects the numbers of diagnostic procedures performed.

External Audit

8.45 The Health Centre's annual financial statements are audited by a public accounting firm. We reviewed the auditor's working papers for the year ended March 31, 2002. There were no significant findings to report from that audit.

8.46 The auditor was also engaged by the Foundation Board to provide an audit opinion on the IWK's use of Foundation grants each year. This type of audit enhances the Health Centre's accountability to the Foundation for funds received. In 2001, the Health Centre decided to pay costs associated with annual audits for its key volunteer organizations which further enhances accountability for funds.

8.47 Foundation/ Health Centre relationship - The IWK Grace Health Centre Charitable Foundation, the Halifax Grace Maternity Hospital Foundation and the IWK Hospital for Children Foundation (referred to collectively as the Foundation) raise funds and provide grants to the Health Centre. These grants may be for a specific purpose or more general in nature. In 2000, the Foundation made changes to its bylaws to ensure it was no longer controlled by the Health Centre. Without these changes, the Foundation's financial statements would have had to be consolidated with those of the Health Centre to comply with generally accepted accounting principles. The Foundation and the IWK remain related parties. The IWK financial statements should include certain disclosures including a description of the relationship between the Health Centre and the Foundation and any transactions between the parties during a given fiscal year to demonstrate transparency and accountability for funds. Currently, the Centre's financial statements include insufficient information about the Foundation.

8.48 We researched practices in other jurisdictions across Canada to determine how hospital foundations were treated for financial statement purposes. The most common accounting for foundations involves related party disclosure in the financial statements. Hospitals in two provinces disclose foundation assets, revenues and expenses in the notes to the hospital financial statements. Such disclosure exceeds standard related party requirements. In Nova Scotia, approximately half of the District Health Authorities and Provincial Health Care Centres have related party disclosure of foundations. The remaining districts do not disclose the relationship to foundations in the financial statements.

Recommendation 8.8

We recommend that the IWK disclose its related party relationship with the Foundation, including transactions between the two entities during the year, in the notes to the Health Centre's financial statements.

8.49 Disaster recovery plan - Discussions with the Health Centre's information technology staff and review of external auditor's documents show that the IWK does not possess a formalized disaster recovery plan. This information management deficiency is currently being addressed. The Health Centre's information technology staff are in the process of developing a formalized recovery plan.

Internal Audit

8.50 The Health Centre has an internal auditor. The IWK Health Centre and the Cape Breton Health Care Complex are the only health care organizations in the Province that possess internal audit functions. Internal audit's mission at the Health Centre is *"to provide... assurance that operations are functioning with due regard to economy, efficiency, and effectiveness, and to ensure that controls are in place to protect the assets of the Health Centre."* In addition to producing reports at the conclusion of audits, the internal auditor reports monthly to the Vice-President of Operations and Support Services, and meets with the Chair of the Board's Audit Committee annually to discuss the internal audit work conducted throughout the year. The objectivity of the internal audit function is somewhat impaired because the Vice-President of Operations and Support Services, who is responsible for many of the areas audited, approves the upcoming year's audits. We believe it would be better for the internal auditor to report directly to the CEO, and Health Centre management agree.

8.51 Internal audits are selected on the basis of an analysis of the Health Centre's risk of loss. A review of IWK internal audit files and schedules show that the internal audit function is providing management with valuable control assurance in the areas audited which include travel expense claims, a personal loan to a physician, accounts receivable collection, cash collections and controls over computer equipment. However, there is no strategic direction for internal audit. Management recognizes that longer-term planning for internal audit is required.

Accreditation Review

8.52 The Canadian Council on Health Services Accreditation (CCHSA) conducts an accreditation review on the IWK Health Centre every three years. The IWK received an unqualified accreditation in 2002 which is the highest level of accreditation. However, the Report to the Health Centre specified four risk areas as listed in Exhibit 8.1.

8.53 One of the risk areas noted related to the manner in which drugs are distributed in the Health Centre. There are basically two drug distribution systems in use in Canadian hospitals – a unit dose system where all drugs are obtained from a pharmacist as required, and a ward stock system where hospital wards maintain a stock of many drugs which are dispensed by nurses upon receipt of a prescription from a physician. The ward stock system has a higher risk of medication errors due to such factors as lack of pharmacist review of patient charts for drug interactions prior to dispensing drugs to patients, and the potential for non-pharmacist staff on the wards to select the wrong drug or dosage. We discussed this finding with pharmacists at the Department of Health and reviewed a published report on pharmacy issues in Canadian hospitals which included comparative statistics (2001/2002 *Annual Report: Hospital Pharmacy in Canada Survey - Medication Incidents*, Eli Lilly Canada Inc.).

8.54 Although some medications at the Centre are distributed on a unit dose basis, the Health Centre uses ward stock to a greater extent than its counterparts and therefore has a higher risk of medication errors. Health Centre staff informed us they plan to move to centralized IV admixture (CIVA) - where intravenous medications are mixed in the pharmacy - in 2004-05, with the move to unit dose for solid dosage forms in 2005-10. Ideally, a unit dose system would require staffing the pharmacy on a twenty-four hour a day basis so that a pharmacist would always be available to issue medication. The pharmacy is currently staffed 76 hours per week. The Health Centre plans to move to 105 hours per week, which would still require the maintenance of some ward stock.

Recommendation 8.9

We recommend that the Health Centre analyze the risks, costs and benefits associated with drug distribution systems and consider whether it would be appropriate to move to a unit dose system on a more timely basis

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Procurement

8.55 Background - The Purchasing Department of the IWK Grace is responsible for the purchase of capital items, goods and services for the effective and economical operation of the hospital.

8.56 The Department has established relationships with several buying groups in an effort to reduce costs. It is a member of a National Medical Supplies Buying Group, a member of a Food Buying Group and a member of the Provincial Drug Distribution Plan. These groups follow a tendering process to ensure that the IWK achieves competitive and advantageous pricing on the products supplied

8.57 Compliance - The government's procurement policy for the hospital sector requires sole sourced, alternative procurement transactions or tenders awarded to other than the lowest bidder to be supported by a report called the *Non Public Tender Report*. The Report is expected to be maintained by the entity for audit purposes. Our testing has indicated that this Report is not completed by the IWK Health Centre. Our audit testing also revealed that in 2 of 15 (13%) of our sample items tested, there was no public advertisement for items that should be tendered under the policy for the hospital sector.

8.58 Internal policy - The Health Centre's written internal policies have not been updated since 1997, are not clearly defined and do not comply with current government requirements for the Academic, Schools, Hospitals (ASH) Sector. Dollar value thresholds for the invitational and public tender processes have not been clarified. The policy seems to focus solely on capital acquisitions rather than goods and services. As well, the policy provides no guidelines regarding the processes required for paying contracted employees. As a result, individuals are not aware of the current purchasing requirements. Our testing indicated that one Health Centre department used its own discretion when determining whether to tender construction contracts.

Recommendation 8.10

We recommend that the Health Centre update its internal procurement policies to comply with the Government's requirements for the ASH sector and clarify internal instructions to ensure compliance with policies.

8.59 Documentation - Evidence from sample testing indicates that 5 of 57 (9%) of purchase orders were created by the Purchasing Department without formal approval of the purchase requisition by the purchasing manager. In addition, the system does not generate a log of price changes. As a result, changes to negotiated prices can be processed by individual buyers without the knowledge or approval of the purchasing manager.

Recommendation 8.11

We recommend
- formal approval of all purchase requisitions by the purchasing manager; and
- production and review of price change exception reports to ensure that all price changes have been approved.

Pharmacy Inventory Controls

8.60 Overview - At the time of our 1993 audit, the pharmacy department did not have a perpetual inventory system. A system was subsequently implemented. Currently the pharmacy department has 36 employees including a director and 17.5 staff pharmacists (full-time equivalents).

8.61 Segregation of duties - The Health Centre operates a computerized perpetual inventory system for pharmacy inventory. We reviewed controls over certain aspects of the system including the risk of undetected loss of drugs before they are entered into the inventory system. We found some control weaknesses which management attributed to the small numbers of pharmacy staff. Adjustments to reconcile the perpetual inventory are not reviewed by senior financial management. In many cases, physical access to the goods and recording of the goods in the system is performed by the same individual. IWK staff informed us that appropriate segregation of duties is not practical given the low numbers of staff, perishable inventory and the need to maintain the primary emphasis on patient care. Staff also noted that workload activities and individual responsibilities will change when a unit dose system is implemented (see paragraph 8.54 above).

Recommendation 8.12

We recommend the Health Centre
- review the segregation of duties among staff with pharmacy inventory responsibilities with a view towards improving internal controls;
- ensure that there is appropriate segregation of incompatible duties such as receipt of goods and maintenance of accounting records; and
- ensure that senior financial management reviews adjustments to perpetual inventory.

Economy and Efficiency: Follow Up to 1993 Audit

8.62 During our audit of the children's facility in 1993, we reviewed utilization of resources in the following areas: length of stay; diagnostic imaging; surgical wait lists; rental of office space to physicians; and the patient information system. Our 1993 recommendations for improvement were followed up during this audit.

8.63 Setting targets and monitoring performance - As part of this audit, we examined the Health Centre's monitoring of whether resources are utilized with due regard for economy and efficiency and whether there are systems in place to provide adequate information to support such monitoring.

8.64 The Health Centre produces quarterly report cards for each program area which include various indicators, including length of stay (LOS). These report cards compare LOS to the prior year. The IWK does not have established targets or benchmarks for LOS. There is no comparison outside the Health Centre for the women's portion of the facility.

8.65 The Health Centre participates in a group - Pediatrics Decision Support Network - which produces an annual report comparing LOS for various case mix groups at six Canadian pediatric facilities (including IWK). Staff at the IWK informed us they follow up areas where the IWK has the highest LOS. This is an informal process which is not well documented. We acknowledge that there are difficulties when comparing LOS between facilities. However, it is still important to try and find benchmarks against which to measure one's progress and to formally follow up and document areas where the Health Centre's LOS is higher.

8.66 The Canadian Institute for Health Information (CIHI) has established guidelines for health care facilities which state the time required for particular diagnostic imaging procedures. Staff at the IWK informed us they use their own estimate of exam times for certain procedures because CIHI times are based on an adult population and are not always applicable to pediatrics. The monthly reports produced in diagnostic imaging do not compare the actual exam time to either CIHI guidelines or the IWK's own suggested times.

8.67 The Health Centre has an internal standard of a 72 hour turnaround from the time of a visit to when a report is received in the physician's office. In the past, the IWK's standard was 48 hours but this was increased in 2000 due to budget reductions.

Recommendation 8.13

We recommend that the Health Centre continue to work with other facilities across Canada and organizations such as the Department of Health and the Canadian Institute for Health Information to further develop targets, monitor performance and make comparisons between facilities.

8.68 Operating room bookings/surgical wait lists - The system for booking operating rooms has improved since our last audit. Physicians are required to submit information on patients waiting for surgical procedures to the IWK to ensure surgical wait lists are complete. The Health Centre uses a computerized system to accumulate wait list information and schedules operating rooms three to six months in advance based on an OR Booking Policy.

8.69 There are no established targets for surgical wait lists or comparisons to similar facilities across Canada. The OR Committees review a quarterly wait list report and information on wait lists by doctor is available if required. Based on this review, the Committee may decide to reallocate time between physicians or disciplines to try and better manage surgical wait lists.

8.70 The Canadian Institute for Health Information (CIHI) produced a report titled *Health Care in Canada* 2002 which noted the difficulties hospitals experience in getting good information on wait times. Clearly, wait times are an issue which hospitals and Departments of Health across Canada need to continue to address.

8.71 Patient information system - During our 1993 audit, we noted that private patients, seen in physicians' offices, were not always registered on the hospital's patient information system. Staff at the Health Centre informed us that all patients are now registered. Various reports are produced by the system and forwarded to staff to verify that all patients are recorded. These reports help ensure the accuracy of the system.

8.72 Rental of office space to physicians - Most of the physicians who work with the Health Centre have signed alternate funding contracts with the Department of Health. These contracts require the Health Centre to provide office space at no cost to the physicians. There are 25 obstetricians/gynecologists who are paid on a fee-for-service basis. This group of physicians has an arrangement with the Health Centre whereby they do not have to pay rental fees for office space at the IWK. There are also six doctors from other specialties who are paid under fee-for-service arrangements and are required to pay a nominal rent for office space. Monthly rental fees are below market prices for office space with approximately $5,000 in total annual revenues from all physician office rental at the Health Centre.

CONCLUSION

8.73 The IWK Health Centre's Board and management have established reasonable systems for planning, monitoring and controlling operations. We have made recommendations for improvement in certain areas and will follow up on implementation in three years. Our recommendations include the need for cost-savings initiatives identified during the business planning process to be more clearly reflected in operational plans. We also recommend improvements to the process for monitoring results of such initiatives.

8.74 Economic and efficient management of a complex health services organization like the IWK Health Centre requires careful setting of targets, and monitoring of the level of achievement to determine required improvements. Although the Health Centre has made progress in this area, particularly in comparing itself with similar facilities, it is essential that the Centre continue to work with its peers and the Department of Health to further develop related standards (such as acceptable wait times) and monitoring practices in all areas of the Centre's operations.

Exhibit 8.1

Extract from Canadian Council on Health Services Accreditation's May 2002 Accreditation Report (page 11)

Current Risk Areas

Encourage early implementation of master plan to relieve space and functional issues, particularly in mental health care area. There is a lack of exercise facilities for adolescents and the sight lines from nursing station limit staff's ability to monitor patient activity.

Drug distribution system still based totally on ward stock, with intravenous infusions being mixed on the nursing units; inappropriate storage of some high-risk drugs such as KCL. This was discussed with leadership and there is a good program to manage risk with the current system. It is likely that the centre will move to this system during the next expansion and this is strongly supported.

Staff and patient identification (many staff not wearing name tags, none available for patients)

Improvements to the way ethical issues are handled could be made in some cases. Although most teams praised the structures and processes, the neuro-developmental team felt that it was too slow because access to the appropriate individuals was sometimes difficult.

IWK HEALTH CENTRE'S RESPONSE

Senior staff of the IWK Health Centre have reviewed the 2003 Audit report and are generally supportive of the findings and recommendations made in the report. We are pleased by the thoroughness of the Auditor General's report and look forward to making further improvement in processes noted.

The following comments are made specific to Section 7 "Principal Observations from this Audit"

- we agree with your assessment of the use of the Carver Model of Board Governance and in particular the Board's deep commitment to governance.
- we are pleased by your acknowledgment that the Health Centre has a well established process for business planning.
- we acknowledge the need to develop a more comprehensive documentation of operational plans to achieve savings and are committed to initiate this on a go forward business planning basis.
- the Health Centre's final fiscal year position as of March 31, 2003 was reconciled with additional Department of Health funding. The IWK Health Centre began the 2003/04 fiscal year with no accumulated operating deficit.
- we welcomed the acknowledgment by the Auditor General Report that our most recent accreditation (2002) was unqualified. With reference to the concerns over the system for drug distribution, we have had further discussion with the Department of Health and submitted a service proposal for consideration as part of the 2004/05 business planning process.
- we agree with the observation that a note to the Health Centre's financial statements could improve the understanding of the use of Foundation funds to support the activities of the Health Centre.
- we are pleased by the acknowledgment that we have and continue to make progress in areas of performance improvement and in particular our work with the facilities across the country.

9 LONG-TERM CARE

BACKGROUND

9.1 Long-term Care is a division of the Continuing Care Branch of the Department of Health (DOH). The majority of long-term care facilities are operated by non-profit owners with some operated on a for-profit basis. There are 71 nursing homes, 32 residential care facilities and 34 community-based options that provide Level I (some supervision and help with personal care) and Level II (nursing) care to residents. The Department of Health sets per diems for all facilities through the business planning process. Approximately 20% of residents are private pay and do not require financial assistance from DOH. The remaining 80% pay a portion of their per diem costs based on income, with DOH subsidizing the remainder.

9.2 Nursing homes and residential care facilities fall under the Homes for Special Care Act and are licensed by DOH. Facilities are required to comply with the terms of licensing agreements with the Department. Nursing homes are also required to provide a minimum of 2.25 hours of nursing care per resident per day. Community-based options are small facilities for up to three people who do not require nursing care. These facilities are not required to be licensed.

9.3 Budgeted expenditures for 2003-04 for the Long-term Care (LTC) program are $222.5 million – an increase of $18 million or 9% over 2002-03 budgeted expenditures. Actual expenditures for 2002-03 were $199.6 million. Most of the budgeted increase for the program relates to wage and benefit increases and the Cost of Care Initiative through which government policy changes now exempt certain assets from the financial assessment process and government pays a portion of each resident's nursing costs, regardless of ability to pay (see paragraph 9.17 below). Exhibit 9.1 provides a summary of actual expenditures from 1999-2000 to current.

9.4 In 2000, DOH began centralizing access to home care and long-term care through Single Entry Access (SEA). Clients call a single phone number regardless of whether they need home care or long-term care. All applicants are now required to undergo an assessment of their care needs and financial status to determine the type of care required and ability to pay a portion of the related costs. Prior to that time, individual homes determined who was admitted to facilities and the individual's ability to pay could have influenced decisions. Under SEA, individuals are placed on a wait list based on care requirements and date of application.

9.5 Our last audit of the Long-term Care program was performed in two phases and reported in the 1997 and 1998 Reports of the Auditor General. We have followed up on our recommendations from those audits and included that information in this Report (see Exhibit 9.3).

RESULTS IN BRIEF

9.6 The following are the principal observations from this audit.

- The Department of Health has made significant progress since our last audit of the Program. Business planning is now required at the facility level and budgets are approved on a more timely basis. The introduction of the Single Entry Access system has enabled the Department of Health to gather better information on wait lists. However, there is no comprehensive long-term strategic or operational plan for the Program and we recommend that one be prepared, and that the Department continue with its efforts to develop a funding formula for long-term care facilities.

- Significant improvements have been made in the financial assessment process with the creation of the Eligibility Review Unit (ERU). We have recommended additional enhancements to this process including better documentation of assessments conducted.

- Significant recommendations from our 1997 and 1998 audits which have not been addressed include the need for new legislation and regulations, periodic reassessment of residents' financial status and care needs, and the finalization of draft care standards. We have recommended that these outstanding recommendations be addressed.

- Improvements are needed to DOH's invoice approval process for billings from long-term care facilities. There are no policies to ensure consistent verification procedures among regions. We have recommended that common procedures be implemented to ensure all information on invoices is verified.

- The Department only has one performance indicator for the Long-term Care program and no outcome measures for facilities. To enhance accountability, we have recommended DOH develop indicators at the Department level as well as measures related to the services long-term care facilities provide.

- DOH originally estimated policy changes announced in November 2002 would cost $6 million for fiscal 2003-04. Central government reduced this figure to $3 million during the budget process. Department forecasts at the time this Report was written estimate costs will reach $6 million by 2003-04 year end. We have recommended the Province ensure reasonable estimates of the costs of policy changes are calculated and included in the Estimates.

- The Department receives semi-annual financial forecasts from facilities. We have recommended DOH consider obtaining quarterly forecasts. The Department should also develop processes to monitor areas such as financial management, compliance, and economy and efficiency in LTC facilities.

- DOH funds facility mortgage payments over time through the per diem rates. At the time of our audit, Department staff were accumulating information to estimate the total amount of outstanding facility loans and mortgages to be covered through future per diems. We have recommended the Department continue with efforts in this area.

AUDIT SCOPE

9.7 The objectives for this assignment were to:

- follow up on significant findings related to licensing, classification, financial assessment and funding from our 1997 and 1998 audits;
- review and assess planning for the Long-term Care program including strategic planning, operational planning and budgeting,
- review the financial assessment process and test a sample of assessments for compliance with legislation and policies;
- review and assess the information available to management at DOH to support decisions on long-term care;
- review and assess the accountability framework between nursing homes and DOH including any work done by internal audit in the homes;
- determine whether controls over payments to facilities are adequate; and
- review and assess DOH's processes for addressing recommendations of task forces, etc. formed to give advice in the long-term care area.

9.8 Our approach was based on interviews, and review of legislation, other documents and correspondence. The audit criteria were listed in our audit plan and discussed with management at the Department.

PRINCIPAL FINDINGS

Planning

9.9 Strategic planning - DOH does not have a formal strategic plan at this time. The Department has identified five high level strategic principles for 2003-04 - quality, access, wellness, accountability, and sustainability. DOH also has a number of strategic directions which have not been formally documented. Staff informed us these will eventually form the basis of the 2001-06 strategic plan. The strategic directions are supported by strategic priorities and related initiatives and are tracked quarterly by a central group at the Department to determine progress. Department staff informed us that strategic priorities are considered during the planning process and input from stakeholders is obtained through fall and spring sector consultations as part of the business planning and budgeting process.

9.10 Reporting - In addition to the quarterly tracking by a central group at DOH, the Department also prepares quarterly reports to Treasury and Policy Board summarizing progress on strategic initiatives. These reports identify the initiative, impact of changes and proposed timing. See Exhibit 9.2 for the Continuing Care Section from the *Quarterly Projection Report to Treasury and Policy Board (October 2003 to March 2004)*.

9.11 Devolution to District Health Authorities - Eventually, DOH intends to devolve long-term care to the District Health Authorities (DHAs). In preparation for this, DOH has developed a draft Affiliation Agreement that addresses how homes will work with DHAs. The Department plans to make LTC funding non-portable when the program is first devolved. DOH will retain certain functions such as monitoring and evaluation, licensing and financial assessment. At the time of our audit, the Department was waiting for government approval and had no definite date for devolution of the Long-term Care program.

Recommendation 9.1

We recommend that the Department prepare strategic and operational/business plans for the Long-term Care program.

9.12 Business planning process for facilities - Each fall, DOH forwards a document – *Business Plan Requirements and Guide* – to LTC facilities. This guide includes the timeline for submission of business plans to the Department and approval of facility budgets. Templates for the provision of financial information such as salaries, detailed operational costs and capital are included. This is a comprehensive document which provides good direction to facilities regarding the Department's requirements. We reviewed business plans submitted by two long-term care facilities and noted that they were prepared in accordance with DOH's guidelines, utilizing the required templates for financial information. The Department has made efforts to standardize the information received from facilities and continues to make progress in this area with the introduction of required templates for audited financial statements (see paragraph 9.39).

9.13 Once facility plans have been received by DOH, Department staff prepare summaries for use in the budget process. Occupancy rates are also calculated for use in planning. Cost pressures are ranked into three categories based on a set of predetermined criteria such as whether the issue is a Departmental priority or is required by legislation or regulations. This ranking process helps the Department determine which increases can be funded this year and which will be deferred to another year. Senior staff at DOH meet to review the business plans, summaries and cost pressure information. Once the Long-term Care program budget has been determined, staff prepare budget letters for the various facilities stating the approved per diem for the upcoming fiscal year and breaking down the facility budget to show approved staff, operational costs and any capital programs approved. DOH does not use a funding formula for long-term care and the preparation of facility budgets on a line-by-line basis is a time consuming exercise. Department staff informed us the development of an overall funding formula is one of DOH's strategic initiatives. Staff indicated the Department has been moving towards this by developing funding standards for components of the overall funding in areas such as salaries, benefits and equipment.

Recommendation 9.2

We recommend that DOH continue with its efforts to develop an overall funding formula for the Long-term Care program.

9.14 DOH has considerably improved the budget process for long-term care since our last audit. In the past, facility per diems were often not available until very late in the fiscal year. For the past couple of years, budget letters, including per diem rates, have gone out April 1. Budget letters detail approved staffing and facilities must comply with minimum DOH staffing requirements.

9.15 Funding - Although significant progress has been made in business planning, there is still work to be done. DOH staff informed us that the Department does not fund deficits of nursing homes. However, at the end of the 2002-03 fiscal year, DOH decided to make a one-time payment of $1.7 million to nursing homes to contribute towards deficits for that year. The budget for 2003-04 increased by $18 million over the prior year. However most of this related to specific increases for 2003-04, such as DOH's plan to fund a portion of nursing care costs (see paragraph 9.17 below) and negotiated salary increases. Base funding for facility operations increased by $1.1 million. The average per diem requested by facilities in 2003-04 business plans was $154.80. The average approved per diem on April 1, 2003 was $151.68. Base funding for facility operations was a problem for a number of years and facilities often had to borrow funds to continue operating. Department staff noted this situation has changed over the past two to three years. Although past underfunding and related loan payments continue to put pressure on facilities, finance staff at DOH believe that the 2003-04 budgets for facilities are 'manageable'. Facilities must have DOH approval to undertake any capital projects such as renovations.

9.16 Facility spending is closely monitored by the Department through the approval and payment of per diems. At the time of our audit, DOH had not received all audited financial statements of facilities for 2002-03 and as a result, could not provide information on the number of facilities with deficits.

9.17 DOH is also experiencing additional cost pressures in 2003-04. In November 2002, DOH announced the Cost of Care Initiative. This plan exempts certain assets from the financial assessment process that determines the amount seniors will need to contribute to their care costs. The Department also announced reductions in the daily per diem rates paid by private pay residents as well as plans for future reductions. The per diem rates paid to facilities have not been reduced but the

Province has begun to partially subsidize private pay residents. An information sheet on DOH's website notes that *"after April, 2007, you will be expected to pay only the accommodation portion of long term care."* At that time, the Province will cover the nursing care portion of costs for all residents regardless of their ability to pay.

9.18 The LTC policy changes announced in November 2002 have resulted in higher costs to the Department than budgeted. Department staff originally estimated these changes would cost $6 million for 2003-04 but central government only approved a $3 million increase related to these changes. Department forecasts at the time this Report was written estimate these changes will cost approximately $6 million for fiscal 2003-04. Since new residents are required to contribute less than in the past, they require public assistance sooner. LTC facilities have also experienced higher than average occupancy rates. DOH calculates occupancy rates each year as part of the budget process. Traditionally these rates had been stable at 98.5%. For the first six months of 2003-04, occupancy rates ranged from 99.5% to 99.7%. Since DOH costs for LTC are based on a per diem cost per resident, increased occupancy rates have a significant impact.

Recommendation 9.3

We recommend that the Province ensure reasonable estimates of the costs of policy changes are calculated and included in the Estimates. These estimates should be available before policy changes are approved.

9.19 Capital projects - The business plan guide provides templates for capital projects. Facilities are asked to rank capital projects based on a set of predetermined criteria such as impact on resident safety. DOH reviews this ranking when assessing capital requests. For 2004-05, capital guidelines for larger projects have changed. Anything involving new square footage, new beds, replacement facilities and major retrofits will be submitted separately from the business planning process and formally presented to the Department by the facility.

9.20 During 2000-01 and 2001-02, DOH funded LTC capital projects through one-time capital grant payments which were expensed in the year they were paid. In 2002-03, DOH returned to the Department's traditional capital funding methodology of financing projects over a period of time. Where applicable, per diem rates include operational costs of the facility as well as a capital component. Facility mortgage payments continue to be included in per diem rates as they have been historically. At the time of our audit, Department staff were compiling information to estimate the total amount of outstanding facility loans and mortgages to be covered through future per diems.

Recommendation 9.4

We recommend that DOH continue with its efforts to accumulate total outstanding facility loans and mortgages for long term-care facilities. This outstanding amount should be monitored for financial planning purposes.

9.21 DOH staff informed us that the Department did not receive any funding for capital projects in the long-term care area for 2003-04. As a result, DOH had to allocate $2.1 million in funding from its operational budget to capital projects for LTC facilities.

9.22 Task Force reports - DOH does not have a formal process in place to respond to task force reports on long-term care. As reports are issued, staff within the Continuing Care Division at DOH are assigned responsibility to review and respond to the recommendations. Responses to reports may be informal and are not always written.

Recommendation 9.5

We recommend that DOH issue formal, written responses to the recommendations of Task Forces and other groups engaged to review long-term care.

Accountability

9.23 Roles and responsibilities - There appears to be a good understanding of the roles and responsibilities of the Department of Health and long-term care facilities. Although there are no formal agreements, the relationship has evolved over time and is well understood by both parties. Department staff noted that the annual licensing process ensures that facilities are fulfilling requirements related to resident safety, staffing and other areas. Responsibility for visits to facilities is assigned to one of DOH's regional offices based on the facility location. For planning visits to facilities, these offices maintain lists showing when licenses expire. The regional offices ensure licensing visits are completed and make recommendations on whether an annual or interim license should be issued depending on whether deficiencies were identified.

9.24 DOH staff noted the business plan and budget represent a type of financial agreement between facilities and the Department. Sector consultations form part of the business planning process in the spring and fall. During the year, as policy changes or clarifications are required, DOH sends bulletins to facilities detailing these changes.

9.25 Required reporting from long-term care facilities to DOH consists primarily of financial information. Although Homes for Special Care Regulations require quarterly reporting by facilities, DOH staff informed us that this reporting requirement is outdated (see Recommendation 9.10 regarding the need for new legislation and regulations). The information previously provided by quarterly reports is now available to DOH directly from the Single Entry Access system. Facilities are also required to comply with licensing requirements but are not required to report on whether compliance is achieved.

9.26 As noted above, there are no formal accountability agreements between the Department and facilities. DOH has developed a draft affiliation agreement to be used by District Health Authorities and facilities following devolution of the LTC Program (see paragraph 9.11 of this Report). If devolution is not implemented in the near future, DOH will need to implement affiliation agreements between the Department and facilities or an accountability framework to set out a formal understanding of roles and responsibilities of each party.

Payment of Invoices from Facilities

9.27 Long-term care facilities provide detailed monthly billings to DOH showing the residents for that month, number of days being claimed and the per diem rate for that facility. Invoices are submitted to DOH's regional offices for verification before being forwarded to the Department's central office for approval and payment. Regional offices are responsible for verifying that all residents billed on facility invoices were residents during that month. Invoices also include special needs residents may have such as ambulance trips, wheelchairs and glasses. Regional offices are required to agree these special needs to supporting documentation before approving the invoice.

9.28 We tested 40 monthly invoices from facilities around the Province by reviewing the information on file at central DOH. We did not visit regional offices. The results of our testing showed significant documentation problems with the invoice approval process. Although regional offices are required to verify the information on facility invoices, there are no standard procedures to be followed and central Department staff are not sure of the extent or consistency of invoice verification by regional offices. For example, we were unable to determine from central Department staff the processes used by regional offices to verify new residents and to ensure deceased residents are removed from billings on a timely basis. At the time this Report was written, central Department staff were meeting with regions to determine processes in place and assess where improvements are required.

Recommendation 9.6

We recommend that DOH work with its regional offices to develop standard procedures for invoice approval that include verifying new residents, ensuring deceased residents are removed from billings, ensuring mathematical accuracy, and regional and central office approval of invoices before payment. We also recommend that the Department develop a system to monitor compliance with these procedures.

Financial Assessment

9.29 Establishment of Eligibility Review Unit - When we last performed an audit of financial assessment for long-term care, each region had its own process. There were no standard policies to ensure consistency. The same staff were responsible for assessing an individual's care needs and financial status, and any ongoing contact that was required with the residents. In August 2001, DOH formed a central group - Eligibility Review Unit (ERU) - to complete financial assessments. By May 2002, the ERU completed all new financial assessments Province-wide. This Unit has developed written policies and staff are trained in the financial assessment process. ERU management informed us periodic file reviews are completed to ensure policies have been followed.

9.30 Individuals applying for financial assistance when entering a long-term care facility complete an application with the Care Coordinator in their area. This information is then forwarded to the ERU along with supporting documentation such as copies of tax returns and bank records. An Eligibility Review Officer completes the financial assessment by reviewing the bank records, tax returns and other supporting documentation. When a decision has been made, an eligibility letter is forwarded to the applicant. Once the applicant signs the eligibility letter, the information is sent to a Placement Officer. These staff are responsible for filling vacancies in facilities from the wait list.

9.31 During our audit, we tested 60 financial assessment files. Significant improvements have been made to the financial assessment process by the ERU. Additional required improvements include documentation of procedures completed by ERU staff and ensuring all related evidence is on file.

9.32 In some of the files we tested there was no evidence to show that a property search was completed or all bank withdrawals followed up. ERU staff informed us that property searches where undeclared property is not found and notes on individual bank withdrawals are often not included in the file.

9.33 We also noted that the ERU regularly accepts handwritten income tax forms as evidence of income. Staff informed us that the Notice of Assessment from the Canada Customs and Revenue Agency often does not contain sufficient detail for financial assessment purposes. Seven of the 60 files tested only had one year of income tax information on file.

9.34 Documentation problems were discussed with the ERU and management subsequently implemented a file closure checklist to ensure all procedures completed during the assessment process are properly documented and all paper work is included.

9.35 ERU management noted that policies and procedures to deal with non-compliance with the financial assessment process need to be developed. There is currently no standard procedure when families or applicants are not providing required information or otherwise delaying the assessment process. Some of these applicants may already be LTC residents who have entered a facility from hospital, after their care needs have been determined pending a financial assessment. We were informed that the ERU plans to work on developing these procedures during 2003-04.

Recommendation 9.7

We recommend that the Eligibility Review Unit of DOH:

- ensure all procedures completed during the financial assessment process are documented;
- obtain official Notices of Assessment or electronic data from Canada Customs and Revenue Agency in addition to copies of income tax returns to ensure income information on file is accurate; and
- develop policies to address non-compliance with the financial assessment process.

Information Available to Support Decisions

9.36 SEAscape data - With the implementation of the Single Entry Access system, DOH now has data available which would have been obtained from long-term care facilities or regional offices in the past. The SEAscape software includes data on clients who are waiting, priority for entering a facility and information on numbers waiting in each district. Information from SEAscape has allowed DOH to develop better wait lists. In the past, many people were on wait lists at several facilities which made it difficult to determine the total number of people waiting. Additionally, people often put their names on wait lists anticipating the need for care in the future. With the introduction of SEA, only those applicants who require placement based on care needs are wait listed.

9.37 DOH's March 2003 *Your Health Matters* notes that the number of people eligible and waiting for long-term care beds dropped by 23% between May 2002 and March 2003. This is attributed in part to the use of professionals to assess care needs. Assessors may be able to suggest alternative arrangements for seniors that allow them to remain in their own homes. Having a single wait list for all facilities also helped to reduce the wait list by accurately reflecting the number of people waiting.

9.38 SEAscape software does not allow the Department to manipulate the data and produce customized reports. DOH staff are working with a Decision Support System that takes SEAscape data and allows custom reports to be developed. The Department is working on reports including average waiting times at initial admission by facility and average age at initial LTC placement.

9.39 Facility financial information - DOH has financial information from facilities gathered through the business planning process. Beginning with the year ended March 31, 2003, DOH is requiring all long-term care facilities to provide audited financial statements. Prior to this, most facilities had audited statements but they were not required. Facilities are now also required to present financial statement information in a common format, either in the body of the statements or an appendix. This policy ensures DOH has greater detail on operational costs of facilities and that the financial statement auditors have examined this detailed information. During 2002-03, DOH also implemented a policy requiring facilities to provide semi-annual forecasts after six months and at year end starting with September 30, 2002. We examined this process and found that the majority of September 30, 2002 forecasts were received by DOH. For those forecasts that were outstanding, DOH staff informed us facility business planning information was used instead. DOH has informed facilities that 2002-03 audited financial statements and September 30, 2003 forecasts must be received by the Department before 2004-05 business plans and 2003-04 per diem adjustments will be finalized.

9.40 During our 1998 audit of LTC, we noted the need for detailed audits of the financial management functions of homes, including compliance with policies and due regard for economy and efficiency (see paragraph 11.40 of that Report). These audits are necessary to determine whether the facilities are well managed. At that time, DOH's internal audit group was planning to expand the scope of its facility audits. However in 2001, a Corporate Internal Audit group for all of government was formed. There have not been any detailed operational or broad scope audits of LTC facilities since that time.

Recommendation 9.8

We recommend that DOH increase its financial monitoring of facilities and consider requesting forecast information on a quarterly basis. DOH should also consider whether processes are required to monitor areas such as financial management, internal controls, compliance with policies, and due regard for economy and efficiency in LTC facilities.

9.41 The information available to DOH management provides a good foundation to support decisions on long-term care. DOH has seen benefits from the information gathered in the form of more accurate wait lists. This, along with improvements to the financial reporting process, should provide a good basis for the Department to make decisions regarding future needs such as bed planning. At the time of our audit, Department staff were working on a bed planning report as part of DOH's health services planning initiative. This report was expected to be available sometime during fall 2003.

9.42 Lack of performance indicators - Significant improvements are required in the area of performance indicators for the Long-term Care program. The 2003-04 Business Plan for the Department has a section on outcome measures which includes "*access to quality long term care services*" and "*amount of time clients wait for services*" as outcome measures. As noted in paragraph 9.36, information on wait times is available from SEAscape. DOH does not have any other indicators for the

Department related to long-term care and there are no performance indicators for facilities.

Recommendation 9.9

We recommend that DOH develop performance indicators for the Long-term Care program. These indicators should include measures at the Department level as well as measures related to the services long-term care facilities provide. Requiring facilities to periodically report standard performance measures would enhance their accountability to the Department.

Follow-Up from Prior Audits

9.43 During our audit, we followed up on significant findings related to licensing, classification, financial assessment and funding from our 1997 and 1998 audits. 19 of 26 recommendations resulting from those audits have been completed or are in progress (see Exhibit 9.3). The following significant recommendations have not been implemented.

- In 1998, we noted that legislation surrounding nursing homes should be reviewed to ensure it better reflected current practices. The Homes for Special Care Act was proclaimed in the 1970's. DOH staff have informed us that new legislation is one of the Department's strategic priorities.
- In 1997, we noted that DOH did not have policies requiring periodic reassessments of residents' care needs and financial situation. There has been no policy development in this area. Currently, DOH is relying on facilities or family members to inform them of changes in a resident's care needs or financial status. Many current residents of long-term care facilities had financial assessments completed under the old system, prior to the establishment of the ERU and the development of common policies for all assessments.
- Draft care standards which had been developed at the time of our 1998 audit have not been finalized. These standards would provide DOH with a useful tool for developing outcome measures for long-term care facilities.

Recommendation 9.10

We recommend that DOH review the remaining recommendations from our 1997 and 1998 audits, including:

- new long-term care legislation and regulations;
- requirements for periodic reassessments of residents' care needs and financial status; and
- care standards.

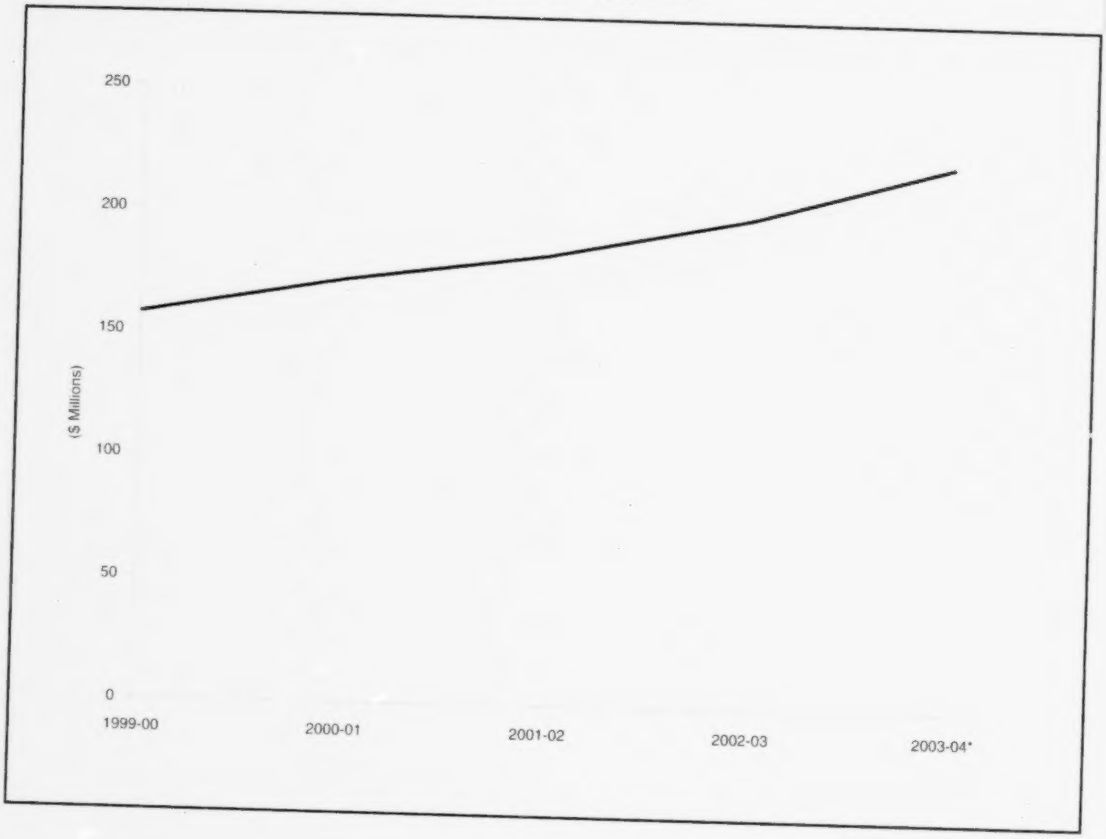
CONCLUDING REMARKS

9.44 DOH has made significant progress in business planning and budgeting for facilities, the applicant financial assessment process and accumulation of wait list information. Facilities now have budget letters which state approved per diems on April 1 rather than several months into the fiscal year as had been the practice.

9.45 There is a need to improve the longer-term and annual planning for the program and to accurately estimate costs for any changes in policy that are being considered. The resource implications should be studied and known prior to decision making. Although the Department has made significant progress since our last audit, there are still significant fiscal challenges associated with this program.

Long-term Care Costs - 1999-2000 to 2003-04

Exhibit 9.1



*Estimate

Exhibit 9.2

Quarterly Projection Report to Treasury and Policy Board (October 2003 to March 2004) - Continuing Care Section

Activity (Identify activity)	**Expected Impact** (Identify expected impact - intended and potential unintended)	**Proposed Timing** (Specify the proposed timing)
Health Services Planning Steering Committee (Phase II) Continuing Care consultation. This is a capacity study of Long Term Care, Home Care, and other Continuing Care Services.	Benchmarks are recommended for various services by DHA, with projections of numbers of beds and "places" out to 2016. The reaction of the continuing care section has been positive to this initiative.	Forums of continuing care providers were hosted by DOH in June 2003 in Halifax and Sydney.
27 existing classifications of continuing care have been grouped into six categories for planning purposes. TPB approved the dissemination of this planning methodology in the Spring of 2003.	Written report is almost finalized; currently, the inventory of "places" and the data sources are being updated prior to publication of the report.	No public release of this document is planned.
Transition of Home Care to the District Health Authorities.	Facilitates integration of acute and home care services, making care more seamless; staff and contractual relationships will be devolved from DOH to DHAs.	Awaiting Cabinet confirmation
Challenging Behavior Program	Funding in 2003-04 budget enables development of education component of Challenging Behavior Strategy.	Fall 2003.
Development of a new Continuing Care Act; legislative policy development currently underway.	Update and revision of old Homes for Special Care Act to facilitate more complete integration of the continuing care sector.	To be determined.
Develop a provincial approach to palliative care across the continuum.	Will provide direction to DOH, DHAs and IWK. Will provide direction to business planning process. Will improve access to palliative care services. Will develop standards based on "best available evidence". Will improve integration of service delivery. Additional funding required.	Preliminary recommendations due December 2003. Project to be completed no later than December 2004.

Long-term Care: Follow-Up On Status Of Recommendations From 1997 and 1998 Audits

Exhibit 9.3

Paragraph	Recommendation from 1997 Report	Status
6.8, 6.38 to 6.41	The lack of standardized policies in a number of areas related to LTC facilities has led to inconsistencies across the Province.	Completed The introduction of Single Entry Access (SEA) has enabled greater consistency in assessing care needs by using a common assessment tool. All applicants must undergo a financial assessment by a newly formed central group - the Eligibility Review Unit (ERU).
6.15	The Classification and Assessments manual did not fully describe the current process for classification and assessment.	Completed As noted, SEA policies deal with the classification process and the ERU has policies for financial assessment.
6.18	Verification of income and assets was not performed consistently throughout the province.	Completed The ERU has enabled the Department to ensure greater consistency by centralizing the financial assessment process. ERU staff are separate from the Care Coordinators who assess care needs of applicants.
6.21	Possible financial contributions from relatives were also considered in the assessment of financial need. We recommended that policies and procedures be developed in this area.	Completed ERU policies and DOH's website provide information on whether assets are included or exempt from the financial assessment process.
6.22	There were no requirements for periodic reassessment of a resident's financial situation and caseworkers relied on staff in homes to inform them of changes in a resident's financial position. We recommended roles and responsibilities for the reassessment process be clarified and the development of policies and procedures requiring regular review of financial data.	No Change There are no policies dealing with periodic reassessment of financial status. The Department relies on facilities and clients to notify them of changes in financial status. We have again recommended that DOH review our recommendation from our prior audit and determine a plan of action. See recommendation 9.10 of this Report.
6.26, 6.27	A Manual in use in 1997 required periodic reassessments of care needs. Caseworkers were responsible for completing these reviews but due to volume of caseload for each worker, there was no time for reassessments and no system to track whether reviews had been completed. We recommended policies be developed to ensure periodic reviews of care needs.	No Change The manual used in 1997 which required periodic reassessments is no longer utilized. We have recommended DOH review our prior recommendation, determine whether periodic reviews are needed and develop a plan of action. See recommendation 9.10 of this Report.

Paragraph	Recommendation from 1997 Report	Status
6.30, 6.33	Designated residences were not treated consistently across the Province when sold. We recommended that policies and perhaps changes to legislation were needed to ensure consistent treatment of proceeds on disposition of a designated residence.	Completed In November 2002, DOH announced changes which included automatic designation of applicant's residence and ability to transfer designated residence to spouse and subsequently sell without any impact on the resident's financial contributions. If the residence is disposed of while in the resident's name, the proceeds must be applied to costs of care.
6.29, 6.32, 6.33	Under Section 8 of the Social Assistance Act a designated residence was not included in the financial assessment process whereas funds in investments were included. We recommended that legislation and policies be reviewed and expanded to address these issues.	In Progress Changes introduced in November 2002 resulted in additional assets being exempt from the financial assessment process (cottages, one vehicle, etc.). There are still inconsistencies in that certain investments are considered in calculating the contribution to costs of care while others are not.
6.34 to 6.37	Interim standards for Community-based options (CBOs) required program plans and regular monitoring. (CBOs were under the Department of Community Services at this time. DOH now has responsibility for CBOs serving DOH clients.)	No Change Interim standards for CBOs were tabled in the House but not finalized. DOH requires the CBOs they are involved with to follow these interim standards.
6.38	The Classifications and Assessments Manual used at the time of our audit was not always consistent with existing practices. We recommended that the manual be updated.	Completed See response to paragraphs 6.8 and 6.38 to 6.41 in this exhibit.

Paragraph	Recommendation from 1998 Report	Status
11.7, 11.13	Nursing homes and homes for the aged were inspected on an annual basis. Legislation requires semi-annual inspections for nursing homes and annual for homes for the aged.	In Progress Regulations do not specifically define an inspection as the formalized licensing process. In addition to annual visits, Long-term Care Advisors from DOH are in the homes on a regular basis. DOH management feel these visits satisfy the inspection requirement and acknowledge that the Department needs to ensure more formal documentation of these visits.
11.17	Many aspects of regulations were not detailed in the licensing tool which is used during facility inspections to ensure compliance with DOH requirements. Management of the LTC Division indicated legislation should be revised. A time frame for this review had not been established.	No Change The licensing tool currently used does not address all Regulatory requirements. Legislation has not been updated since our last audit. DOH management informed us that new Continuing Care legislation is one of the Department's strategic priorities but there is no definite timeline for new legislation and related Regulations. We recommended that this be addressed. See recommendation 9.10 of this Report.
11.19	A draft document had been developed outlining standards of care in facilities and addressing areas such as governance, administration and physical environment. We urged the Department of Health to finalize this draft as it is necessary to set standards to measure facility outcomes.	No Change The draft standards were not finalized. There has been restructuring in the Continuing Care Branch and there are plans to make further changes. Under the proposed structure, a Director of Policy and Standards will be responsible for the development of these care standards.
11.20	Facilities are required to submit emergency plans to the Minister. We were informed that copies of plans are kept in homes which is not consistent with Regulations.	In Progress Emergency plans are not treated consistently across the Province. Some regional offices retain copies while others check to ensure plans exist but do not keep copies.
11.20	The annual health inspection required by Regulations was being performed by the Department of Agriculture and Marketing. Only 45% of files we reviewed had evidence of the health inspection. We were informed a process was being developed to ensure LTC receives copies of all health inspection reports.	Completed During the licensing inspection, facilities have to provide health inspection reports to the LTC Advisor. Although the tool does not specifically state copies are required, it does require noting the date of the report, any deficiencies, etc.

Paragraph	Recommendation from 1998 Report	Status
11.22	There were no guidelines for length of interim licenses issued in cases where deficiencies were noted during the inspection process. We recommended guidelines be developed recommending interim license terms related to certain deficiencies.	In Progress Although there have been some informal discussions among regions regarding appropriate lengths of interim licenses, formal guidelines have not been established.
11.7, 11.27	Although budget requests were submitted each year, annual budgets and per diems for homes were based on historical funding of the home rather than established guidelines. We noted that inefficiencies built into the budget would continue to be included. DOH informed us that the budget process was to be strengthened.	In Progress For 2002-03 and 2003-04, facility per diem rates have been approved by April 1. Improvements have been made to the business planning process and budgets are based on more standardized criteria. Department staff informed us that the development of a funding formula for LTC is one of the DOH's strategic initiatives. We have recommended the Department continue its efforts in this area (recommendation 9.2 of this Report).
11.26	Legislation does not require audited financial statements to be submitted although the Department has been attempting to introduce this requirement. We urge the Department to continue with this initiative and to use the financial statements as a starting point for establishing a reporting framework for financial results to enable the Department to make meaningful comparisons between budgeted and actual results and comparisons among facilities.	In Progress Legislation has not changed but, starting with the 2002-03 fiscal year, DOH requires all facilities to provide audited financial statements based on a standard format to facilitate comparisons.
11.28, 11.41	We recommended the Department review existing staffing guidelines as a starting point for more detailed guidelines which would outline what would be funded and how it would be calculated. We noted that the Department should ensure homes are using funds in accordance with the approved staffing complement outlined in the budget letter.	Completed Homes have to staff to levels required by DOH. Staff levels and related funding are based on hours of care per resident.
11.7, 11.34	Effective per diem rates are not established prior to the start of the fiscal year.	Completed Approved per diem rates were available April 1 for 2002-03 and 2003-04.

Paragraph	Recommendation from 1998 Report	Status
11.35	In some cases, claims had not been signed by the appropriate official. Claims should not be processed for payment unless they are appropriately signed.	No Change We tested a sample of 40 claims by facilities and noted significant documentation problems with the invoice approval process. See paragraph 9.28 of this Report.
11.40	No detailed audits had been conducted since 1994 to review financial management functions of homes, compliance with guidelines or due regard for economy and efficiency.	No Change As noted in paragraph 9.40 of this Report, government's Corporate Internal Audit Group was formed in 2001 and there have not been detailed operational or broad scope audits of LTC facilities since that time.
11.7, 11.43	The Department should establish an accountability framework for its relationship with the homes. Documented goals for performance and monitoring and reporting on those goals should be an integral part of the framework.	In Progress There is a good understanding of the roles and responsibilities of DOH and LTC facilities but the Department needs to improve performance reporting. There is only one performance indicator for the LTC program and it does not relate to facilities. We have recommended this be addressed. See Recommendation 9.9 of this report.
11.7, 11.46	Wait lists were maintained regionally and did not always included private paying clients.	Completed All applicants, regardless of ability to pay, must have their care needs and financial status assessed and be placed on a wait list maintained by DOH for placement.
11.7, 11.50	We noted the need for the Department to perform a comprehensive review and analysis of all available data to forecast future long-term care bed needs.	In Progress The introduction of SEA has enabled the department to develop better wait lists. The report from Health Services Planning Phase II will provide a methodology for planning future bed requirements.
11.56, 11.57	We noted the need for a formal written policy outlining procedures to be followed when investigating complaints and a need for guidelines detailing appropriate action based on the nature and frequency of complaints at a facility.	In Progress A complaint procedure was developed after our last audit but is not used Province-wide. This issue is being reviewed. There is a common form for complaints and regional office staff are beginning to look at common procedures.

10 PAYMENTS TO PHYSICIANS

BACKGROUND

10.1 The Canada Health Act establishes conditions and criteria for insured health services which provinces are required to provide. In Nova Scotia, the Health Services and Insurance Act governs the provision of insured services. The Act and its related Regulations prescribe the insured physician services residents are entitled to receive and the payment plans associated with delivering these services.

10.2 Insured services under the Medical Services Insurance (MSI) plan are generally defined as services rendered by physicians which are medically required or which are deemed to be medically required. Certain dental-surgical procedures medically required and rendered in a hospital are also insured. Medically required services are those provided for the purpose of maintaining health, preventing disease or diagnosing or treating injury, illness, or disability. All residents of the Province, with the exception of members of the RCMP or Canadian Armed Forces and inmates in Federal penitentiaries, are entitled to receive insured services. For the year ended March 31, 2002, Provincial payments for medical services and related expenditures totaled $401 million (see Exhibit 10.2).

10.3 In addition to the basic insured services provided under the MSI plan, the Province also provides limited coverage for vision care to all Nova Scotians, a special dental program for certain client groups, and a children's dental plan.

10.4 The Health Services and Insurance Act confers to the Minister of Health the authority to *"negotiate, in good faith, compensation for insured professional services."* As a result, the Nova Scotia Department Health (DOH) negotiated an agreement with the Medical Society of Nova Scotia covering the time period from April 1, 2001 to March 31, 2004. In addition to specifying medical practitioner compensation levels, the agreement also covers areas such as human resources, alternate funding arrangements, and dispute resolution processes. Compensation for insured dental services is addressed in the Insured Dental Services Tariff Agreement covering the same time period.

10.5 DOH has agreements with Atlantic Blue Cross Care (ABCC) and Quikcard Solutions Inc. (QSI) to process and pay physician and dental claims respectively on behalf of the Department. In 2001-02, DOH paid ABCC $7.1 million and QSI $0.3 million for administrative services. In that year, 7,176,859 physician services and 282,877 dental services were processed.

10.6 In 2002, the Department of Health disbanded its Insured Programs Division and assigned responsibility for areas previously under Insured Programs to various other divisions within the Department (see Exhibit 10.1 for a summary of responsibilities related to medical payments).

10.7 The majority of physicians in the Province are paid under the traditional fee-for-service arrangement. Certain groups of physicians have opted to be paid on an alternative funding basis (fixed-fee contract), and therefore do not submit regular fee-for-service claims, but instead are required to submit shadow billings for monitoring activity levels. In 2001-02, payments under alternative funding arrangements totaled $90 million. Payments under alternative funding arrangements were previously audited and reported on by this Office in 2000 and therefore are not included in the scope of this audit.

10.8 Fee-for-service payments made directly to physicians or physician groups under the following programs are included in the scope of this audit: regular MSI fee-for-service; radiology and pathology; optometric; children's dental; special dental; prosthetic; and dental surgical (see Exhibit 10.2). For the year ended March 31, 2002, these payments totaled $266 million.

10.9 In the past, payments to physicians have been audited periodically by our Office. The last such audit was completed in 1994. More recently, a computer environment control review of Maritime Medical Care Inc. (now Atlantic Blue Cross Care) was conducted and reported on in 1998 and an audit of alternative funding initiatives was conducted in 2000.

RESULTS IN BRIEF

10.10 The following are the principal observations from this audit.

- A sample of medical and dental fee-for-service claims was tested for compliance with the Health Services Insurance Act and Regulations and the Agreement with the Medical Society of Nova Scotia. All claims tested complied with the provisions of the Act and Agreement.

- Pre-assessment controls and the audit and monitoring of payments to physicians for bulk-billed radiology and pathology claims are deficient. Inadequate pre- and post-assessment controls increase the risk that inappropriate radiology and pathology claims will be paid.

- A 1997 decision by the Department of Health to pay physician services claims for patients with expired health cards was not supported by appropriate analysis to identify and assess the potential risks. We have recommended that DOH conduct a detailed analysis of the risks and benefits associated with the payment of claims for patients with expired health cards and that appropriate controls and procedures be implemented.

- The Department of Health has assigned responsibility for the audit of physician fee-for-service claims to Atlantic Blue Cross Care under the current administration contract. ABCC has a comprehensive audit process in place to ensure the accuracy of physician fee-for-service claims other than for radiology and pathology claims. There is a need to ensure that audits are also performed by external auditors or the Province's Corporate Internal Audit Group on a regular basis.

- The current administrative contract with ABCC does not include provisions which clearly define roles and responsibilities, reporting and information requirements, and mechanisms for the assessment of ABCC performance. DOH should ensure that all new contracts with service providers include such provisions.

- We audited certain aspects of the administration of the Children's Dental Program by Quikcard Solutions Inc. and made recommendations to improve accountability.

- Prior to our audit, DOH had not completed an analysis of whether expected savings from the move to Quikcard Solutions Inc. for processing dental claims had been realized. We have recommended that DOH ensure appropriate follow up is completed to determine whether expected cost savings have been achieved by new projects.

- Our 1998 Report recommended that DOH obtain legal counsel with respect to its rights of ownership over the software used by ABCC to process physician medical payments. The recommendation has not been implemented. This is an important issue that should be examined as part of the Department's assessment of alternatives for the administration of physician medical payments.

AUDIT SCOPE

10.11 The objectives of this assignment were to:

- obtain current documentation of the controls and accountability for the physician, children's dental, optometric, and radiology and pathology payment systems; including those at the Department of Health and those in place at the contracted administrators;

- gain an understanding of the contract with the administrators and audit the administrator's allocation of administrative expenses to MSI;

- review the results of internal audit activity for 2002 (at Department of Health, Atlantic Blue Cross Care, and Quikcard Solutions Inc.), and any audit plans for the upcoming year (2003), and form an opinion on the adequacy of internal audit activity;

- test a sample of physicians, children's dental, dental surgical, optometric, and radiology and pathology claims for compliance with the applicable Regulations under the Health Services and Insurance Act and any applicable terms of the Agreement between the Province and the Medical Society; and

- follow up on the implementation of recommendations from our 1998 Computer Environment Control Review and our 2000 audit of Physician Alternative Funding Initiatives.

10.12 The audit criteria were taken from recognized sources including the CICA Criteria of Control Board's *Guidance on Control*, Canadian Council on Health Services Accreditation's *Standards for Acute Care Organizations: Contracted Services*, Office of the Auditor General of Canada's *Financial Management Capability Model* and *Modernizing Accountability Practices in the Public Sector* and the Health Services and Insurance Act.

10.13 Our audit approach included interviews with DOH, ABCC and QSI management, review of Corporate Internal Audit files and other relevant documents, and detailed testing of medical payments conducted at ABCC and QSI for the fiscal year ended March 31, 2002.

PRINCIPAL FINDINGS

Accountability Framework

10.14 DOH has contracted the administration of physician and dental payments to Atlantic Blue Cross Care and Quikcard Solutions Inc. The Department's current contract with Maritime Medical Care Inc. (MMC) was signed in 1992 and has been extended several times, with the most recent extension expiring March 31, 2004. Under this contract, MMC is to provide physician and dental claims processing, payment of claims on behalf of DOH, and audit verification work on processed claims. In January 1999, MMC entered into a joint venture agreement with ABCC and merged all operational areas. Legislation formalizing the merger was subsequently passed in 2002 and proclaimed on January 1, 2003.

10.15 Based on the original contract, DOH reimburses ABCC for administrative costs associated with processing and payment of medical payments and related audit work. For 2001-02, ABCC administrative costs totaled $7.1 million. An annual audit of ABCC administrative costs is conducted by the Corporate Internal Audit Group for government.

10.16 In June 2001, processing and payment of dental claims was contracted to Quikcard Solutions Inc. DOH pays Quikcard a fixed amount annually based on the contract. For 2001-02, DOH payments to QSI under contract were $0.3 million.

10.17 Both ABCC and QSI provide monthly expenditure reports to DOH detailing total physician and dental claims paid for that period. DOH prepares journal entries to reflect the payments made on its behalf to physicians and dentists. ABCC also provides monthly reports on administrative costs year-to-date and forecast to year end which DOH verifies.

10.18 ABCC has a Monitoring and Statistics division that conducts audit verification and analysis on previously paid claims (see paragraph 10.27 for further discussion of this). QSI is required to provide DOH with an annual external audit opinion indicating whether QSI has complied with the terms of its agreement with the Department.

Edit and Assessment of Submitted Claims

10.19 Service providers' pre-assessment controls - The majority of claims for payment of insured physician services are received by ABCC electronically from the submitting physician. Physicians submit one or more claims per patient for each separate patient encounter. Individual claims include the identification of the patient and a listing of the medical services provided along with the amount being requested for payment. For 2001-02, 7,176,859 physician services were provided (source: *Medical Services Insurance (MSI) Tables* for 12 months ending March 31, 2002).

10.20 Prior to being approved for payment, claims are subjected to numerous electronic edit checks designed to detect inappropriate claims. Edit checks search for duplicates, date of service prior to the 90 day submission limit, assignment of the proper medical service units to the procedure code, and compliance with the information requirements in the Act. Claims rejected by the electronic edit checks are sent to a manual adjudication system for processing. Claims can be submitted at any time. Payments of approved claims are made bi-weekly.

10.21 Dental claims for payment of insured services are received by QSI in paper form. Once received, QSI staff enter the information into an electronic dental payment system. The manually entered claims are subjected to a variety of electronic edit checks prior to approval for payment. QSI also has a manual approval process for unusual and special circumstance claims.

10.22 Testing results - Our audit included testing a random sample of 100 medical (including optometric) and dental fee-for-service payments for compliance with the Health Services and Insurance Act and Regulations as well as the Province's Agreement with the Medical Society. Testing of the sample of medical payments was conducted at ABCC, while dental payment testing was completed at Quikcard Solutions Inc. We conducted analytical procedures (electronically) on all 2001-02 fee-for-service payments, excluding radiology and pathology claims, to detect certain types of non-compliance such as gender specific procedures being performed on the wrong gender. As a result of our sample and analytical testing, we determined that payments are accurate, timely and in accordance with contract requirements.

Expired Health Cards

10.23 In 1997, based on direction provided by DOH, ABCC stopped refusing MSI claims made by physicians for patients with expired health cards. Nova Scotians are required to renew health cards in order to receive insured medical services, however this requirement is currently not enforced. Based on our discussions with DOH management, dental claims processed by Quikcard for individuals with expired health cards are rejected. Insured hospital services, other than emergency services, also require a current health card prior to service provision. Accompanying the decision to stop refusing expired health card claims was the commitment of a Ministerial review in six months. Based on our discussions, the review was never conducted.

10.24 Current DOH management indicated that an analysis was not performed in 1997 to identify and assess the financial and other related risks associated with the decision to pay physician claims for patients with expired health cards. Department management indicated that an underlying assumption supporting the change was that the majority of these services would have been provided to otherwise eligible residents of the Province who simply neglected to renew their health cards. Management also indicated that the Department is currently in the process of studying this issue.

10.25 ABCC provided our Office with documentation indicating that from May 7, 1997 to March 31, 2002, $1.66 million in MSI claims had been paid to physicians for services provided to patients with expired health cards. However, we did not determine the portion of these expired card claims that pertained to ineligible individuals. The most common cause of ineligibility would be moving out of Province. Since there are reciprocal agreements with other provinces, there is risk that an individual could continue to have Nova Scotia pay for services after moving.

10.26 In addition to the risk of paying claims for ineligible individuals, not enforcing renewal of health cards results in inaccurate personal information for use in ABCC's audit procedures to verify and monitor processed claims.

Recommendation 10.1

We recommend that DOH conduct a detailed analysis of the risks and benefits associated with the payment of claims for patients with expired health cards and that appropriate controls and procedures be implemented.

Audit and Monitoring of Paid Claims

10.27 ABCC Monitoring and Statistics audit work - ABCC has a Monitoring and Statistics division responsible for conducting audits of payments to providers, including physicians and dentists. Staff prepare an audit plan whenever significant changes are made to how physicians are paid since this may impact the type of audit work needed to verify payments. Various types of audit tools are used to verify claims submitted by physicians such as service verification letters sent to patients, physician profiles, on-site billing audits, and internal billing audits. The audit work completed for dental claims is less extensive since the funding for dental claims represents less than 3% of total fee-for-service funding.

10.28 ABCC produces an annual report summarizing the results of audit activity each year. This report is provided to DOH for information. The 2001-02 report noted that:

- 76,380 service verification letters were sent out with an 81% response rate. There were 156 denials that the patient had received the service resulting in recoveries of $13,772.
- As a result of audits identified through the provider risk analysis, 152 on-site billing audits were conducted. 78 providers were identified as having billed inappropriately, resulting in recoveries of $196,357.
- Also using risk analysis, 546 internal billing audits were conducted. Inappropriate billing was identified in 385 audits resulting in recoveries of $197,171, representing 0.09% of total billings.

10.29 It is important to point out that ABCC uses risk analysis to identify types of services or specific physicians for billing audits. The percentage of errors found in these audits is much higher than errors found through the service verification letters which are routinely sent, on a sample basis, to patients of all physicians. Since billing audits are conducted on perceived high risk areas, a higher error rate is to be expected and does not imply that this error rate exists throughout the entire population of physician claims.

10.30 If audits reveal instances of inappropriate billing, the funds are recovered from the physician. ABCC employs a medical consultant to ensure the adequacy of supporting documentation for the claims under review. Once a physician has been audited, he/she is automatically put on the list for follow up in two years. At that time, ABCC Monitoring and Statistics staff will determine whether another audit is necessary.

10.31 Lack of appeals process - The Corporate Internal Audit Group for government reviewed ABCC's internal audit activity and noted a concern with the lack of appeals process for physicians who do not agree with the decision of ABCC's Monitoring and Statistics division. When an audit has been completed and ABCC determines that a recovery is warranted, the physician may appeal this decision. Since there is currently no appeals process, the file is held pending an appeal. At the time of our audit, nine files were being appealed. Some of these appeals are several years old. The Health Services and Insurance Act had a section which dealt with the appointment of a commission to hear appeals. This section was repealed in 1992 and no process has been established to replace it. The Department is aware of this situation and is working with all parties affected to develop an appeals process.

Recommendation 10.2

We recommend that DOH establish an audit appeals process.

Radiology and Pathology Claims

10.32 Provincial payments of bulk-billed radiology and pathology claims totaled $31 million for the year ended March 31, 2002. The payment process in place for these claims varies from the normal fee-for-service payment procedures. Radiologists and pathologists are not required to submit claims electronically to ABCC for processing. Instead, paper reports are submitted by individual physicians or physician billing groups via the mail and manually entered into the system by ABCC staff. While physicians submitting fee-for-service claims electronically are required to provide detailed patient information on every claim (i.e., patient name, age, sex, health card number), radiology and pathology bulk billings specify the bi-weekly or monthly totals only for each type of procedure performed.

10.33 As discussed in paragraph 10.20 above, there are a number of electronic edit checks for regular fee-for-service claims to help ensure validity and accuracy. The manual nature of the payment process for bulk-billed radiology and pathology claims and the lack of patient-specific information prevent ABCC from conducting these edit checks. At the time of writing this Report, DOH had not performed a risk analysis to determine whether the risk of submitting ineligible radiology and pathology claims for payment is less than for other MSI fee-for-service claims. In the absence of such an analysis, it is difficult to justify the reduced level of pre-assessment controls which currently exist.

10.34 Audit and monitoring activities equivalent to those conducted on other MSI fee-for-service claims are not performed on radiology and pathology claims. ABCC management informed us that the lack of patient-specific information on bulk-billing reports limits the ability to confirm the occurrence and accuracy of these claims through existing audit procedures. For example, since patient names and addresses are not included on billing reports, ABCC cannot verify that services were provided. ABCC is able to perform some analysis of total procedures by radiology or pathology service type at each institution. If an analysis identified a significant variance, ABCC staff informed us they would attempt to determine the cause.

10.35 Our Office performed detailed testing on a sample of bulk-billed radiology and pathology shadow billings submitted to ABCC by physicians at the IWK Health Centre as part of an audit we conducted at that hospital (see Chapter 8 of this Report). Bulk-billed shadow billings are submitted in the same manner as bulk-billed fee-for-service claims but are simply not paid because the IWK radiologists and pathologists have an alternative funding arrangement with the Province. Shadow billing information is important because it is used in the health statistics system to accumulate accurate totals of services provided for monitoring service types and volumes. Results of our testing indicated that one of the 33 patient shadow billing claims included an error. A procedure which was cancelled was mistakenly submitted.

10.36 In addition to the detection and recovery of inappropriate claims by physicians, the audit and monitoring of medical payments helps deter inappropriate billings. The 2001-02 ABCC *Monitoring and Statistics Annual Report* suggests that program savings of 3 to 5% may be achieved by having an established audit and monitoring process which helps discourage inappropriate claims. Based on this estimate, the potential cost to the program of not having an audit process in place for bulk-billed radiology and pathology claims could be between $0.9 and $1.5 million for the year ended March 31, 2002.

10.37 Management at DOH indicated that they are aware that very little audit work is currently being conducted on radiology and pathology claims by ABCC. No analysis and assessment of the risks associated with not auditing these claims has been prepared by the Department.

Recommendation 10.3

We recommend that DOH perform a risk analysis on bulk-billed radiology and pathology claims and establish appropriate audit procedures in conjunction with ABCC.

Monitoring and Accountability of Contracted Administrators

10.38 Compliance with ABCC agreement - ABCC is complying with most of the key requirements of the agreement with the Province with the following exceptions. Forecasts and variance explanations for ABCC's administrative expenses are required on a quarterly basis but have only been provided when requested. DOH staff were preparing forecasts and variance analysis for administrative expenses and discussing them with ABCC if required. Department staff were not aware that ABCC was required to provide this information as part of the agreement. DOH management informed us that they have requested quarterly forecasts be provided to the Department in the future.

10.39 ABCC is also required, under the original contract with MMC, to provide audited financial statements to DOH. At the time of our audit, the Department had not been receiving these statements. DOH staff have informed us that they have requested and received audited statements for 2002 and have informed ABCC that the Department will be enforcing the contractual requirement for annual audited statements. It is important to note that the audited financial statements do not show detail related to physician payments. The only related disclosure is a single line-item showing the administration fee received from the Province.

10.40 Department of Finance internal audit work - During the time period covered by our audit, staff at the Corporate Internal Audit Group for government conducted three separate audits of ABCC's operations relating to administration of medical payments to physicians. The audits included a review of pre-assessment controls, audit and monitoring of claims, and an audit of the actual administrative expenses paid to ABCC for 2002. Audit reports have been provided to DOH on two of these audits. The reports concluded that there were adequate controls over pre- and post-assessment of claims at ABCC. The audit of administrative expenses had not been finalized at the time of writing this Report.

10.41 Historically, there has been a lack of independent, external audit activity on medical payments to physicians. The external audit of MMC financial statements includes administrative revenues only. Although payments to physicians are audited by ABCC's Monitoring and Statistics division, accountability could be improved by establishing an independent audit process. There has been some improvement in this area recently with the increased frequency of the Department of Finance's Corporate Internal Audit work on physician payments.

Recommendation 10.4

We recommend that DOH ensure external auditors or the Department of Finance's Corporate Internal Audit Group are engaged annually to audit medical payments to physicians paid by ABCC.

10.42 Future plans for administration of physician claims - As noted in paragraph 10.14, the current contract between the Province and ABCC is quite old (dating back to Maritime Medical Care in 1992) and has been extended several times. The current extension expires March 31, 2004.

10.43 DOH has identified deficiencies in the contract with ABCC and is taking action to ensure these areas are addressed when the Department negotiates a new contract for the administration of the MSI program. DOH contracted a consultant to look at the existing contract with ABCC and make recommendations for change. In the Request For Proposal at the time of hiring the consultant, DOH noted the following areas of concern with the existing agreement:

- *"program and management objectives and deliverables not clear*
- *to the extent that objectives exist, they are often too rigid to allow for the effective use of the information and data provided for effective decision making, and to align with and support emerging health system priorities such as the creation of an electronic health record, primary health care reform, and population initiatives*
- *day to day management of the program is extremely time and resource intensive*
- *mechanisms to identify and measure service delivery performance are not adequate."*

10.44 The consultant has been meeting with staff at ABCC as well as DOH to determine improvements required to the existing system. Ultimately, the consultant will present an analysis of options and a recommended approach for acquisition of services to process medical payments. At the time of our audit, the final consultant's report had not been received by the Department.

10.45 Administration of dental claims - In 1999, DOH entered into an agreement with Quikcard Solutions Inc. to lease QSI's software for the adjudication of dental claims. ABCC used this software to process and pay dental claims from 1999 to 2001. QSI sent an unsolicited proposal to DOH indicating interest in taking over claims adjudication for the Province. DOH entered into a contract with Quikcard to process dental claims and in June 2001, QSI took over from ABCC. Under the agreement between the Province and QSI, QSI receives fixed semi-monthly payments based on a pre-established claims volume. Contract payments remain the same unless this volume varies by more than 20%.

10.46 QSI must provide the Province with an external audit opinion each year indicating that it has complied with all the requirements of the agreement including adequate controls over claims processing, controls to detect duplicate claims and other requirements. The auditors are engaged by QSI. For the period June 1, 2001 to March 31, 2002, QSI had an unqualified audit opinion indicating that they had complied with the requirements of the agreement with the Province in all significant respects.

10.47 Our audit included a review of controls at QSI. During this review we noted a lack of segregation of duties. We understand that this lack of segregation of duties was also identified by the external auditors and verbally reported to Quikcard but no action was taken to remedy the situation. We have been informed by Quikcard management that they are addressing this problem by reassigning certain tasks to other staff.

Recommendation 10.5

We recommend that DOH amend the contract with Quikcard Solutions Inc. to require the external auditors of Quikcard to prepare a management letter detailing any internal control weaknesses as well as a short-form audit opinion.

10.48 Quikcard appears to be complying with the reporting requirements under the agreement with the Province. Monthly reports on claims processed as well as quarterly reports showing total claims paid are being provided. QSI is also required to provide an internal audit review of 30 claims each quarter. Although these reviews were being provided, the individual performing the reviews had access to process claims and was therefore not an independent party.

Recommendation 10.6

We recommend that DOH ensure quarterly internal audits of claims processed are performed by an individual who does not have claims processing responsibilities.

10.49 Cost effectiveness of move to Quikcard - During our audit, we reviewed supporting documentation surrounding DOH's decision to move processing of dental claims to QSI. The cost analysis prepared by DOH prior to this move suggested annual savings of approximately $270,000. Prior to our audit, DOH had not performed an assessment of whether anticipated cost savings had been realized. In response to our request, DOH reviewed the move to Quikcard and informed us that the cost savings of $270,000 were achieved. We did not audit the original cost savings projection or the analysis prepared indicating the cost savings were achieved and, therefore, express no opinion on them.

Recommendation 10.7

We recommend that DOH ensure appropriate follow up is completed to determine whether expected cost savings have been achieved by new projects.

Follow up from Previous Audits

10.50 During the current audit we followed up on significant findings from our 1998 and 2000 audits. Five of the 14 findings have been implemented and four are in progress. The remaining five findings have not been addressed. Exhibit 10.3 details the most significant findings reported and the action taken by both DOH and ABCC in response.

10.51 One of the more significant findings which has not been addressed relates to the ownership of the MSI software. Paragraph 10.47 of our 1998 Report recommended that DOH have legal counsel examine the ABCC contract and provide an opinion on the ownership of the software used to process and administer medical payments to physicians. DOH management informed us that a consultant engaged by the Department determined that the Province has sole ownership of the software. In light of DOH's plans to evaluate possibilities for the administration of medical payments, ownership rights to the processing software could be an important factor in the consideration of alternatives and should be confirmed.

Recommendation 10.8

We recommend that DOH fully address all findings from our 1998 and 2000 Reports. In particular, we recommend that the Department obtain a legal opinion regarding ownership rights to the MSI software.

CONCLUDING REMARKS

10.52 ABCC and QSI have agreements with the Province to process physician and dental fee-for-service claims, respectively. Generally, the claims payments process appears to be well-established, with audit verification work performed by ABCC staff for both physician and dental claims. Because the detailed audit work is performed by staff of ABCC, we have recommended that the Department of Health also ensure annual audits by external auditors or the Province's Corporate Internal Audit Group.

10.53 The establishment of systems and controls to ensure that only eligible claims are being paid is essential to the effective management of payments to physicians. Overall controls are adequate but we identified weaknesses in the areas of payment and verification of bulk-billed radiology and pathology claims, and the acceptance of expired health cards. To limit the Department's exposure to the payment of inappropriate claims in these areas, a risk analysis should be completed and systems and controls implemented as required.

Medical Payments to Physicians
Summary of Responsibilities and Reports Submitted

Exhibit 10.1

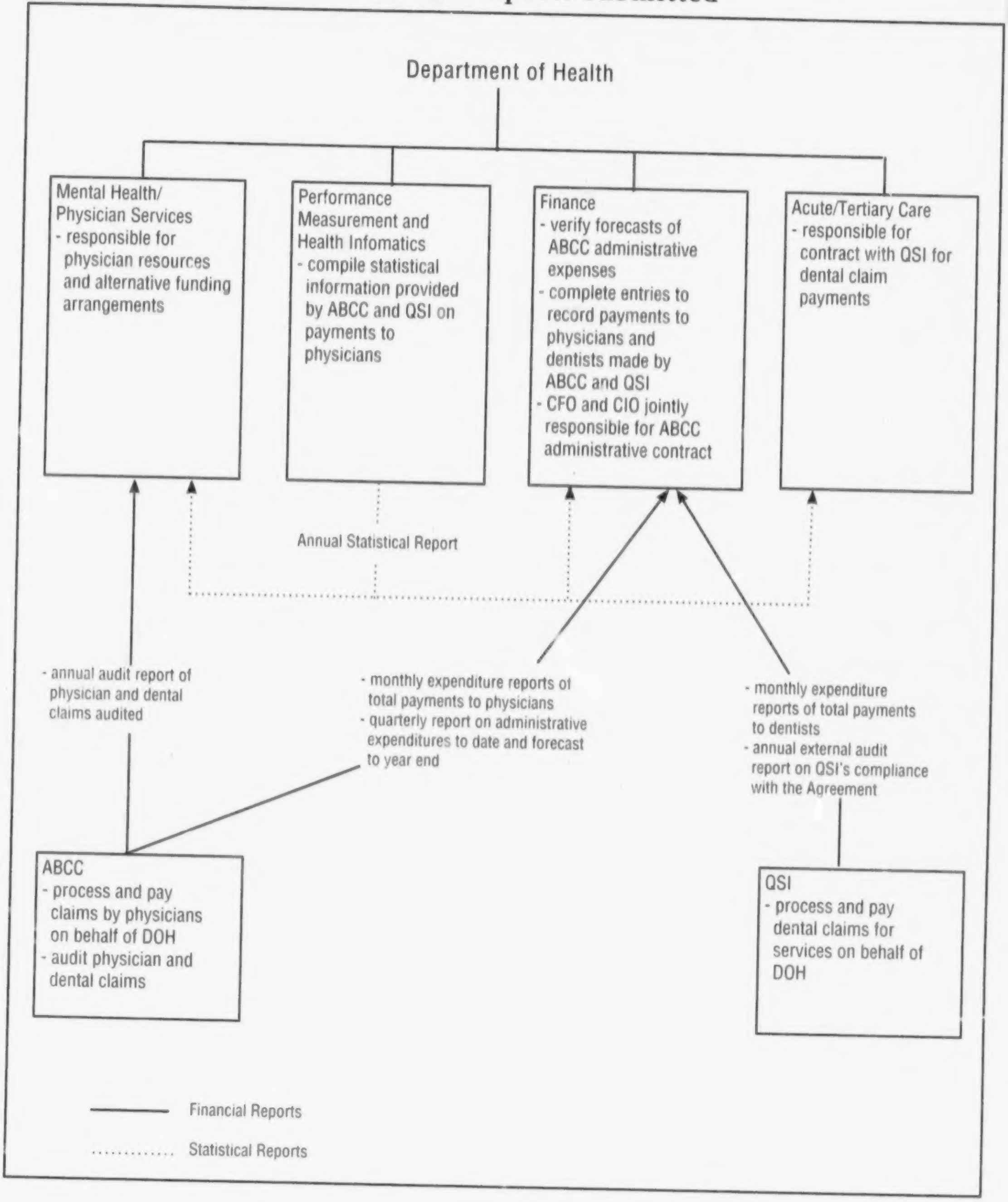

Department of Health
Mental Health/ Physician Services
- responsible for physician resources and alternative funding arrangements
Performance Measurement and Health Infomatics
- compile statistical information provided by ABCC and QSI on payments to physicians
Finance
- verify forecasts of ABCC administrative expenses
- complete entries to record payments to physicians and dentists made by ABCC and QSI
- CFO and CIO jointly responsible for ABCC administrative contract
Acute/Tertiary Care
- responsible for contract with QSI for dental claim payments
Annual Statistical Report
- annual audit report of physician and dental claims audited
- monthly expenditure reports of total payments to physicians
- quarterly report on administrative expenditures to date and forecast to year end
- monthly expenditure reports of total payments to dentists
- annual external audit report on QSI's compliance with the Agreement
ABCC
- process and pay claims by physicians on behalf of DOH
- audit physician and dental claims
QSI
- process and pay dental claims for services on behalf of DOH
Financial Reports
Statistical Reports

Exhibit 10.2

Expenditures on Medical Payments ($ millions)

Payment Method	2001-02	2000-01
Fee-for-Service	$222.4	$220.4
Alternative Funding	89.8	85.3
Tariff Agreement	4.0	2.1
Radiology and Pathology	31.0	30.1
CMPA	4.5	5.2
Re-Entry Physicians	1.1	1.5
Locum	0.5	0.3
Rural Stabilization Fund	9.1	9.2
HST	7.5	7.4
GP Recruitment and Retention	0.1	0.1
Other Insured Programs	31.4	25.8
Total	$401.4	$387.4

Source - SAP March 31, 2002 and 2001

Other Insured Programs ($ millions)

Initiative	2001-02	2000-01
Optometric Payments	$2.3	$2.1
Children's Dental Program	7.4	7.3
Special Dental Plans	0.2	0.2
Special Drug Programs	17.6	13.8
Prosthetic Services Payments	1.5	1.2
Dental Surgical	0.9	1.0
Special Programs	1.5	0.2
Total	$31.4	$25.8

Source - SAP March 31, 2002 and 2001

Follow-Up of Issues Identified in Prior Reports of the Auditor General

Exhibit 10.3

Paragraph	Recommendation from 1998 Report	Status
10.10	The computer control environment at MMC (now ABCC) should be subject to periodic independent assessments.	Implemented - Periodic audits are performed by government's Corporate Internal Audit Group.
10.10	A disaster recovery and contingency plan for MMC should be completed and tested as soon as possible.	Not Implemented - The lack of a disaster recovery plan was noted during our 1994 audit as well. Department staff informed us that this has been identified as a project and will be scoped during 2003-04.
10.10	The Department had not conducted a formal post-implementation review of the new MSI system to determine the extent to which benefits have been realized and how these results compare to original plans.	Not Implemented - There has been no post-implementation review.
10.16	Program staff copy revised programs back into production. This process should be performed by someone without programming responsibilities.	Implemented – Program staff no longer copy revised programs into production.
10.32	Root authority access to the MSI system provides unlimited capability to add, delete and modify data files and directories. A process for regular independent reviews of the activities of individuals with this access should be established.	Not Implemented - There is still no regular (i.e., monthly) report which is reviewed by management of the organization to ensure there are no unauthorized changes. The Corporate Internal Audit Group is looking at root authority access as part of a 2003 audit but this is not a regular process.
10.47	The wording of the 1992 agreement between the Province and MMC suggests that both parties have joint ownership of the MSI program software. DOH staff informed OAG that they believe the Province has sole ownership. The Department should have legal counsel clarify ownership.	Not Implemented - DOH has not obtained a legal opinion on this issue. A consultant engaged by the Department indicated ABCC did not have any ownership rights to the software. The contract with ABCC is more than 10 years old and DOH is currently looking at options for physician payment services. If the Department decided to move to a new service provider, ownership of this software could be an issue.

Paragraph	Recommendation from 2000 Report	Status
9.10	New Alternate Funding Initiatives (AFI) should be supported by documented analysis with specific outcomes and comparisons of estimated AFI cost to fee-for-service.	Implemented - To date, existing AFI have been renewed, parties involved have agreed to work collaboratively to develop a framework for mutually agreed upon specific deliverables. DOH informed us that new AFIs involve greater analysis and comparisons to estimated fee-for-service costs.
9.10, 9.22, 9.23	Controls and monitoring for AFIs should be increased to reduce risk of inaccurate data input and duplicate payments.	In progress - Data entry is not verified by supervisory staff on a regular basis. ABCC has reports that show payments under both alternative funding arrangements and fee-for-service. These reports help ABCC identify duplicate payments and recover the appropriate amount from the physician.
9.10	Monitoring of the completeness of shadow billing information was performed on an ad hoc basis and controls were not adequate.	Implemented - DOH now receives quarterly reports on shadow billing which show AFI payments and shadow billing amounts. If shadow billing amounts are lower than expected by DOH, DOH staff follow up with physicians to determine reasons. The Department and other parties are looking at alternatives to shadow billing.
9.10, 9.47	AFI contract evaluations by DOH should be done more frequently and include evaluations of service delivery methods, stakeholder satisfaction and clinical outcomes as called for in AFI contracts.	In progress - Contract evaluations are not being done more frequently. DOH is looking at developing measurable deliverables for AFI contracts. DOH management informed us a database is currently being developed which includes an inventory of all contracts, individual physicians and due dates for deliverables. Management indicated the Department plans to implement follow-up procedures to ensure deliverables are met.
9.10	AFI contracts include provisions allowing payments to be reduced after 90 days if the actual service level is less than contract payments. The Department should ensure this provision is being enforced.	In progress - DOH staff indicated the Department is beginning to develop a document which outlines the process to be used in evaluating service levels in these instances. We were informed this process should be in place by March 2004.

Paragraph	Recommendation from 2000 Report	Status
9.10, 9.16	Base funding for AFI contracts is calculated using the highest of the past 3 fee-for-service years. The implication is that on average, AFI contracts will cost the Province more than historical fee-for-service.	Not Implemented - DOH indicated it is difficult to quantify whether an AFI arrangement is costing more than fee-for-service since other issues such as market value review and change in the scope of the practice to assist with recruitment or retention of physicians are also considered when determining AFI contract payments.
9.18	Acute care facilities can provide financial incentives to attract medical specialists without informing DOH. This funding is not fully considered when new AFIs are negotiated.	Implemented - It is now a legislated requirement that DOH sign all physician services contracts. Guaranteed compensation under AFI contracts must remain at the negotiated rate.
9.28	Roles and responsibilities of the Department versus ABCC with respect to AFI contract monitoring should be clarified.	In progress - Roles and responsibilities have been clarified. DOH management informed us the Department is working on implementing better contract monitoring and developing a process to evaluate service delivery.

11 COURT SERVICES

BACKGROUND

11.1 The justice system of Nova Scotia, as with all jurisdictions in Canada, is complex. It is also unique when compared to other government functions because various levels of independence are fundamental to the working of the justice system. Within the system are both Federally and Provincially appointed judges who operate independent of government administration. The independence of the judiciary is Constitutionally required and must be respected and maintained in all administrative actions. Public prosecutors work for the Public Prosecution Service, an organization independent of the Department of Justice. This organization is accountable to the Minister of Justice, but there are mechanisms to distance it from political and administrative government structures. Legal aid lawyers operate as an independent commission, separate from the Department of Justice and the Public Prosecution Service.

11.2 Each of these groups, as well as others such as Justices of the Peace, Small Claims Court Adjudicators and private lawyers, depend on the availability of a Province-wide court system to enable them to fulfil their respective roles in the Nova Scotia judicial system (see Exhibit 11.2). The Court Services Division of the Department of Justice provides administrative support and facilities management for the court system. The Division provides court staff and support services to the judiciary and is primarily responsible for managing the system's budget. This requires fairly extensive communication between Division staff and the judiciary.

11.3 Other responsibilities of the Court Services Division include court security, safe transportation of prisoners to and from court, coordination of the Justice of the Peace program, as well as the government's Restorative Justice, Aboriginal Court Worker and Maintenance Enforcement programs.

11.4 The Division operates through a network of 35 courthouses and other facilities throughout the Province. Court administration is managed through 13 justice centres headed by 10 Court Administrators. The Division employs approximately 450 full-time staff. Total program expenditures for fiscal 2002-03 were $40.5 million, $26.7 of which comprised salaries and benefits. Revenues totaled $1.1 million, while fees and other charges totaled $14.3 million (Exhibit 11.3).

RESULTS IN BRIEF

11.5 The following are our principal observations from this audit.

- The Division has clearly defined and well-documented roles and responsibilities.

- The Division strives for consistency of service throughout the Province and has developed some administrative service standards. However, it is constrained by the design and size of some of its facilities. Also, the Supreme Court (Family Division) is currently only established in Halifax and Cape Breton. The Provincial government will be asking the Federal government to expand it to other parts of the Province.

- The judiciary is responsible for the flow of cases through the courts. However, the Division, in consultation with the judiciary and court system stakeholders, has taken steps to help make the operation of the courts more efficient. These include implementing elements of case-flow management in one Halifax-based court, and establishing or improving processes relating to night courts, Justices of the Peace, alternative dispute resolution and mediation, and small claims court.

- The Division performs strategic and business planning, and reports accomplishments relating to its plans. There is regular financial, statistical and operational reporting to help the Division monitor its performance.

- Security over the Division's computer systems appears appropriate, though we believe mandatory password changes, identification of inactive system users and better input quality control procedures for certain systems would strengthen control.

- The Division regularly reviews the fees charged for services it provides. In some cases, fees are waived where warranted by the financial circumstances of a client. We recommended that the Division monitor the number of waiver applications received and the amount of fees waived in order to be better able to assess the impact of waivers on government revenues, as well as on access to justice.

- The Division has appropriate control over the recording, tracking and collecting of fines. Measures have been taken to improve the rate of collection on fines.

AUDIT SCOPE

11.6 In July 2003 we completed a broad scope audit of the Court Services Division of the Department of Justice. The audit was conducted in accordance with Section 8 of the Auditor General Act and auditing standards established by the Canadian Institute of Chartered Accountants, and included all tests and other procedures we considered necessary in the circumstances.

11.7 The objectives of this assignment were:

- to assess whether the Department has adequate procedures in place to ensure resources used in the administration of the courts system are managed with due regard for economy and efficiency; and

- to assess whether the Department has adequate procedures in place to ensure proper control over the administration and collection of fines.

11.8 Audit criteria were developed to assist in the planning and performance of the audit (Exhibit 11.1). The criteria were discussed with and accepted as appropriate by Court Services Division management.

PRINCIPAL FINDINGS

Economy and Efficiency

11.9 Roles and responsibilities - Operational and supervisory responsibilities are clearly assigned in the Division. Job descriptions have been prepared and are up-to-date. The Division has a number of policy and procedures manuals that set out the requirements for the administration of each court, as well as the duties and functions of court administration staff. The manuals are reviewed and updated on a regular basis.

11.10 Court administrative staff and the judiciary interact through regular meetings as well as frequent informal discussions. In addition, liaison committees are established to deal with on-going issues of the courts, as well as specific matters as they arise. Some of the committees have Province-wide representation, while others are specific to a single justice centre.

11.11 Services and standards - The Division seeks to provide consistent levels of service across the Province for each court. However, some differences in services available remain. For example, the Supreme Court (Family Division), which hears all matters related to family law, is established only in Halifax and Cape Breton. For the rest of the Province, family matters are divided between the Provincial Family Court and the Supreme Court (General Division). The Provincial government will be submitting a proposal in the fall of 2003 to the Federal government for the expansion of the Supreme Court (Family Division) to the remainder of the Province. The expansion will require a commitment from the Federal government to make additional judicial appointments to the Supreme Court.

11.12 The design and construction of facilities are also a factor in the types of services available at justice centres. Facilities at some centres are too small to offer all services and, as a result, clients may need to visit more than one location. The Division has developed plans for upgrading and replacing facilities, which are discussed further in paragraph 11.30.

11.13 Service standards have been developed for certain court administrative functions, such as answering the telephone and counter service, which are expected to be implemented during 2003-04. The Division is also developing standards for sheriff services and the administration manual is being updated to incorporate them. Half of the sheriff vehicle fleet has been upgraded to ensure vehicles are of a standard size and uniformly equipped. Management expects that the remainder of the fleet will be replaced on a systematic basis.

11.14 In the Supreme Court (Family Division), administrative service standards were developed and implemented to assist the courts in moving cases through the various stages of the judicial system. Based on an internal review, the standards were not always being met at first, but improvements have been made. However, there is no regular and formal reporting to senior management of the Division on the degree of success in meeting the standards, although information is available upon request.

Recommendation 11.1

We recommend that the Division continue to develop and implement standards for court services and include a process for reporting on achievements.

11.15 Case management - Court procedures for civil cases in the Supreme Court and the Court of Appeal are governed by Civil Procedure Rules set and amended by the judges of the Supreme and Appeal Courts. The Rules include time standards for specific steps of the judicial process. No similar rules have been established for criminal matters heard in the Provincial or Supreme Courts because neither the Criminal Code of Canada nor Provincial statute provide time standards. However, a ruling from a Supreme Court of Canada case established that individuals have the right to a trial within a reasonable amount of time and outlined time frames that would be considered reasonable.

11.16 Delays in bringing cases to trial or in resolving them are monitored by judges on an individual basis. The Division does not have a Province-wide system of documenting and tracking cases and identifying unreasonable delays. A three-year pilot project for case-flow management of civil cases was commenced in 1996 in the Halifax Supreme Court. At the completion of the project in 1999, certain features of case-flow management were permanently incorporated into the Civil Procedure Rules. These include pre-trial settlement conferences, as well as appearance days (set times when lawyers for a case may be required to appear before a judge to deal with procedural matters). This process is only in operation at the Supreme Court in Halifax, which handles 65% of total Supreme Court civil cases in Nova Scotia.

11.17 Nonetheless, the judiciary, in conjunction with court administration staff, works to reduce backlogs as they arise. If delays affect the operation of the court as a whole, then meetings are held among senior management of the Division, court administration staff, the judiciary, and representatives from the Bar to develop an action plan. As well, the Division, in consultation with the judiciary and court system stakeholders, has taken steps to streamline court processes and manage case loads. These include the establishment of:

- Summary Proceedings Courts (Night Courts) in Halifax and Sydney for summary offence cases and peace bond applications;
- Justice of the Peace Centre with a Justice of the Peace available seven days a week, 24 hours a day, for bail hearings, warrant applications and emergency protection order applications;
- alternative dispute resolution processes in the Supreme Court (Family Division);
- Restorative Justice Program to divert youth from criminal court to alternative dispute resolution processes;
- a higher dollar limit for claims in Small Claims Court; and
- a pilot project in the Small Claims Court to provide mediation services.

11.18 Financial, statistical and operational information - In 2000, the Division prepared a five-year strategic plan to guide its operations. Business plans are prepared annually to outline goals and the actions required to achieve them for the coming year. A 'Report Card' is prepared at the end of each year to document achievements with respect to the goals and action plans.

11.19 Senior managers of the Division receive monthly financial and other regular reports on operations. Actual expenditures are compared to the budget and forecasts are updated on a monthly basis. Senior managers also have regular, informal contact with the Court Administrators who are responsible for the cost of operations at the justice centres.

11.20 Statistical reports are available from the Department's computer systems, as well as from outside sources such as the Canadian Centre for Justice Statistics. The Department is also developing a report on key performance indicators. Some of the indicators will relate to the performance of the Court Services Division and it is expected that these indicators will be monitored and reported annually.

11.21 Assessments and reviews of programs and services are carried out periodically. Some are undertaken by staff of the Department and others by outside consultants. They sometimes include stakeholder consultation and service satisfaction surveys. We noted, however, that most assessments did not include significant cost or other financial analysis. We believe such information would enable the Division to better assess whether desired results were achieved at appropriate cost.

Recommendation 11.2

We recommend that cost and other financial analysis be included as part of program assessments.

11.22 We also noted that the Division gathers information on programs and services of other jurisdictions in Canada for comparison and examination of best practices. Although the usefulness of comparing costs with other jurisdictions is hindered because court administration is organized differently in each jurisdiction, and costs are often accounted for in different manners, we believe that making such comparisons is still informative.

11.23 Information systems - The Division uses a computerized system called the Justice Oriented Information System (JOIS) for recording criminal cases and fine collection information. Civil case information is entered into separate databases (Civil Index 1 or Civil Index 2). JOIS is currently undergoing a major restructuring which is expected to be complete by the end of 2003.

11.24 We reviewed the security controls and processes the Division has developed to ensure financial and other information in the computer systems is complete and accurate. We found controls were adequate to ensure information is complete and accurate, although some weaknesses were noted. Password changes are not required automatically on some systems, and the identification of inactive system users is not always timely. We were also concerned that there is no process for verifying the accuracy of case information entered into the civil case databases, as there is for information entered into JOIS. We were informed that an assessment and upgrading of security controls in system applications is underway and that the Division plans to develop a quality control program for civil case information.

11.25 Staffing - The Division determines staffing levels based on such factors as the number of judges at a justice centre, the number of cases processed and whether services are provided in one location or at several sites. Staff training needs are assessed and training plans developed. Regular staff performance reviews are carried out, which include follow up on training plans.

11.26 We observed that management of the Division monitors total staff sick time on a regular basis and discusses trends with the Court Administrators. Also, there is a review and survey of the use of casual staff by the Sheriff's Section under way to determine if justice centres are being staffed in the most appropriate and economic manner.

11.27 Court fees - The Court Services Division charges fees for some of the services it provides. We reviewed the process for establishing fees. We were told that the Division seeks to set fees that are fair and comparable to those charged in other jurisdictions, while ensuring adequate access to justice. Court fees are not based on full cost recovery, as this could unduly restrict access to justice. Court fees are reviewed by the Division, generally every two or three years.

11.28 The most recent fee changes came into effect in 2002, with some revisions in March 2003. We examined the documentation from the review process leading to these changes and found it did not indicate the rationale for the various fees charged. Management informed us that certain fee increases were based on recommendations of the Cost and Fees Review Committee, which has representation from the legal community. These fees were increased to a reasonable amount that would reflect the value of the services provided. As well, at that time, the Division implemented a 10% increase in all other fees. The Division plans to review the entire Cost and Fees Act in the near future. All fees named in the Act will be reviewed for relevance, fairness and consistency. We advised that this review should provide a better description of the rationale for individual fee amounts.

11.29 In 2002 the Division established a policy, set out in Regulations, to allow the waiving of certain court fees where warranted by the financial circumstances of the client. At the time of our audit, information was unavailable on the number of waiver applications received and the amount of fees waived under the policy.

Recommendation 11.3

We recommend the Division monitor the number of waiver applications received and the amount of fees waived in order to better assess the impact of waivers on government revenues, as well as on access to justice.

11.30 Facilities management - The Division has a long-term facilities plan which was prepared in 1997 and subsequently used as the basis for construction and renovations of justice centre facilities. The plan does not include facilities in the Halifax Regional Municipality. The Division has initiated a study to develop a long-term facilities plan for the Halifax area. It is expected to be completed during 2003.

11.31 There is a manual for courthouse facility design which was developed by the Courthouse Standards Committee in 1987 and revised in 1995. Membership of the Committee is made up of representatives from the judiciary and the Bar, as well as staff from the Departments of Justice, and Transportation and Public Works. The manual is still in use, although it needs to be updated. The Division plans to have the manual updated over the next year.

11.32 Constructing or renovating justice centre facilities is a challenging process, as the needs of various stakeholders must be considered. Oversight of a project is usually coordinated between staff at the Departments of Justice, and Transportation and Public Works. A protocol has been developed to set out the respective roles of the two departments. We reviewed three construction and renovation projects and found no problems with the project management procedures employed.

Fine Collection

11.33 Background - The Division administers the fine collection process for violations under Provincial legislation, as well as for certain Federal and municipal laws in accordance with agreements with other governments. During the year ended March 31, 2003, fines totaling $8.8 million were processed. Of that amount, $1.1 million was recorded as fine revenue of the Department of Justice, the remainder relating to other Provincial departments and other levels of government.

11.34 The Division has established policies and procedures for distributing ticket booklets, recording and tracking fines, and fine collection and enforcement.

11.35 Distribution of tickets - Booklets of pre-numbered tickets are distributed centrally from the Halifax Provincial Court to Halifax-area law enforcement agencies and other Provincial courts in the Province. Each Provincial court is responsible for distributing booklets to law enforcement agencies in the area.

11.36 We tested the controls over the distribution of ticket booklets and concluded they were generally adequate. However, we noted weaknesses in recording disbursed booklets in logbooks, and in the documentation and follow up of confirmation receipts - forms that courts and law enforcement agencies must send to acknowledge receipt of ticket booklets.

Recommendation 11.4

We recommend that the Division ensure all ticket booklets disbursed are properly recorded in the logbook. We also recommend the Division establish and implement a policy for the periodic review of confirmation receipts to ensure all forms are signed and returned as required.

11.37 Recording and tracking fines - Tickets issued by law enforcement agencies and court decisions on related cases are recorded in the Division's computer system (JOIS). The Division also records all payments of fines in this system.

11.38 Periodic reviews of accounting procedures in place at the justice centres are carried out and reported upon by a staff member of the Division. We believe this process is valuable for maintaining control at the centres. This person is due to retire soon. The Division expects to continue the review process and is also considering other measures to ensure control is maintained at the justice centres, but nothing specific has been decided yet. We encouraged the Division to develop a plan to ensure accounting procedures and practices at the justice centres continue to be monitored.

11.39 Enforcement and collection of fines - Fines can be paid at any justice centre in the Province through cash payments or certain non-monetary means. Non-monetary payment is when a fine is paid off through community service under the Department's Fine Option Program, or through time served in jail. Monetary payments can be made by means of a debit or credit card at some justice centres. Credit and debit cards are expected to be accepted at all centres by the summer of 2003. As well, a pilot project was established in 2000 to allow fine payments to be made at Access Nova Scotia Centres in Halifax, Dartmouth, Baddeck and Sydney.

11.40 Notification of an overdue fine is automatically generated by JOIS when a fine remains outstanding after a court appearance date. If a motor vehicle related fine is not paid within 30 days, the offender is identified for denial of service at the Registry of Motor Vehicles. At this point, the offender will not be able to renew a driver's licence or vehicle permit. The fine must be paid, along with a $30 reinstatement fee, before the Registry will provide services.

11.41 We discussed this process with Division staff and believe it will motivate payment of motor vehicle related fines. However, considering that motor vehicle licences are renewed only every five years, and permits every two years, the effect of the prohibition could be delayed in many cases. We asked why there could not be a revocation of existing licences and were informed that a judicial hearing would be required in each case to determine the reason for the failure to pay a fine. Revocation cannot be an administrative decision by court or other government staff. In contrast, where a licence has expired, government may decide the conditions that must exist for extension. One such condition is that applicants must not have unpaid motor vehicle fines.

11.42 We also asked why this compliance measure is limited only to motor vehicle fines. We were informed that Section 269 of the Motor Vehicle Act stipulates that the Registrar can, in certain cases, refuse to renew a driver's licence or vehicle permit until a fine is paid. The permitted cases are infractions of municipal by-laws, Provincial enactments or Federal enactments involving the operation of a motor vehicle. No present authority exists to refuse to renew a licence for fines arising in other situations.

11.43 In 1997-98 the Division entered into an arrangement with Service Nova Scotia and Municipal Relations (SNSMR – formerly the Department of Business and Consumer Services) where SNSMR became responsible for collecting fines outstanding for one year or more. SNSMR receives a percentage of overdue fines collected. The terms of the arrangement were recently amended to allow SNSMR to begin collection procedures on fines outstanding after six months. Exhibit 11.4 shows the amount collected by SNSMR since the inception of the arrangement. In total, $9.2 million has been collected on overdue fines to the end of March 31, 2003.

11.44 Collection procedures, other than automatic notices, taken before an account is transferred to SNSMR can vary among the justice centres. Some centres have staff make calls to collect fines, and some do not. The differences are mainly due to the availability of staff to do such work. Where the number of fines being processed is high, time available for collection procedures is reduced.

11.45 The Division reviewed its collection process in March 2002 to determine if more could be done by the Division before overdue accounts were transferred to SNSMR. It concluded, given the Division's resource constraints and the earlier transfer of individual accounts to SNSMR (from one year to six months), that further enhancements to the collection process at the centres would not produce significant benefits.

CONCLUDING REMARKS

11.46 Based on our audit, the Court Services Division of the Department of Justice has adequate procedures in place to ensure resources used in the administration of the courts system are managed with due regard for economy and efficiency. Roles and responsibilities have been defined, some administrative service standards are established, measures have been taken to improve the flow of cases through the courts, internal financial and non-financial reporting are good, and there are guidelines and studies relating to the staffing of the courts.

11.47 We also concluded that the Division has adequate procedures in place to ensure proper control over the administration and collection of fines. As well, measures have been taken to improve the rate of collection of fines.

Exhibit 11.1

Audit Criteria

Audit criteria are reasonable and attainable standards of performance and control, against which the adequacy of systems and practices can be assessed. They relate to the audit objectives developed for an assignment and are used to design detailed audit tests and procedures.

The following criteria were used in our audit of the Court Services Division of the Department of Justice.

- Economy and efficiency - Authority, responsibility and accountability for management of the Province's courts system should be clearly defined. Sufficient, appropriate financial, statistical and other information should be collected and analyzed to assist in planning and decision-making for the courts system. Management planning and control, operational systems and work practices should demonstrate due regard for economy and efficiency.

- Fine collection - Roles and responsibilities for the administration and collection of fines should be clearly established. There should be an adequate system for tracking the issue and collection of fines. There should be procedures in place to ensure that appropriate actions are taken to collect overdue fines on a timely basis.

Nova Scotia Court System Structure

Exhibit 11.2

NOVA SCOTIA COURT OF APPEAL

Federally Funded – Judges' Salaries
Provincially Funded – Administration and facilities

SUPREME COURT OF NOVA SCOTIA

Federally Funded – Judges' Salaries
Provincially Funded – Administration and facilities

SUPREME COURT (GENERAL DIVISION)

- Civil
- Probate
- Adult Indictable Criminal Matters
- Bankruptcy
- Appeals From Small Claims Court
- Appeals From Provincial Court (Summary Convictions)

SUPREME COURT (FAMILY DIVISION)

All family matters, including, but not limited to:

- Divorce
- Family Maintenance Act
- Children and Family Services Act
- Adult Protection Act
- Youth (under 16)

PROVINCIAL COURT

Provincially Funded

- Preliminary hearings
- Trials (indictable and summary conviction)
- Summary offence tickets
- Peace Bonds

SMALL CLAIMS COURT

Provincially Funded

Hearings with a claimed value under $10,000 heard by an Adjudicator

PROBATE COURT

Provincially Funded

Various Probate matters that can be heard by the Registrar or a Justice

FAMILY COURT

Provincially Funded

All family matters (excluding divorce) including, but not limited to:

- Family Maintenance Act
- Children and Family Services Act
- Adult Protection Act
- Youth (under 16)

Exhibit 11.3

Court Services Division Financial Results

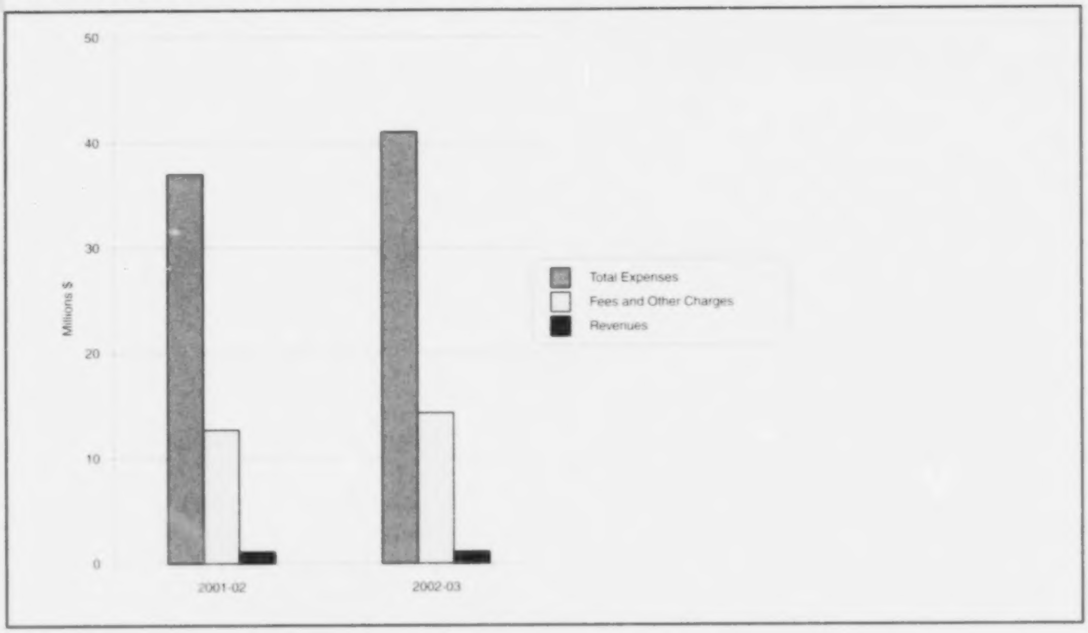
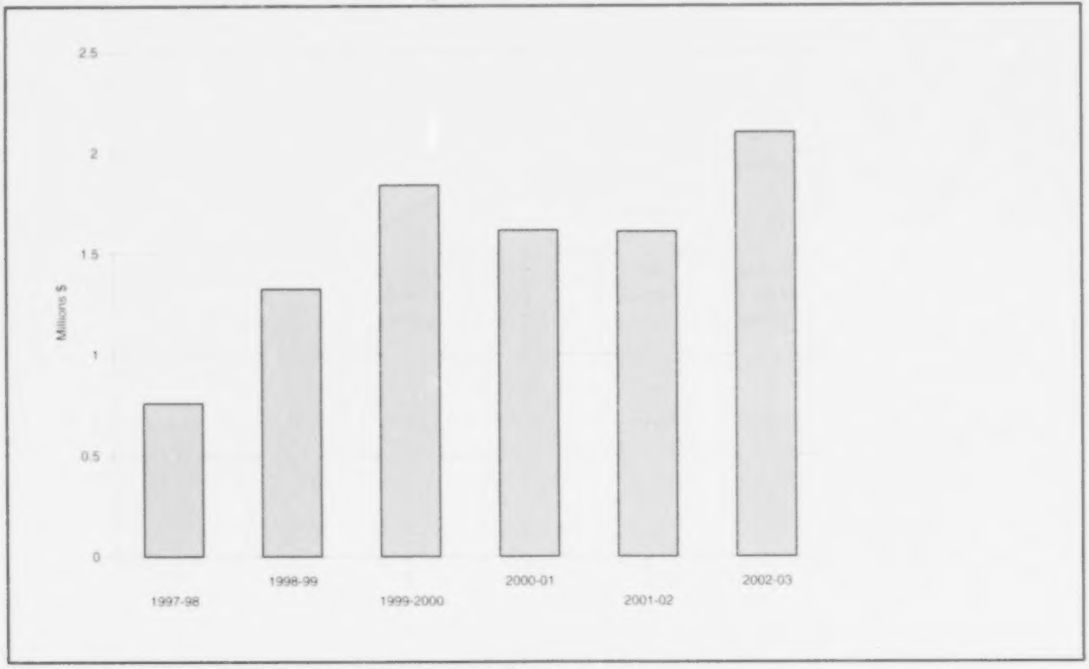


Exhibit 11.4

Amounts Collected by Service Nova Scotia & Municipal Relations Under the Fine Collection Agreement



DEPARTMENT OF JUSTICE'S RESPONSE

General Comments

The Audit Report and the audit experience proved to be an extremely helpful tool for the Court Services Division in reviewing our processes and policies to see if they were as efficient and equitable as they need to be. Senior staff in the Division were very appreciative of the auditors' professional and inclusive fact-finding procedures.

Response to Principal Findings and Recommendations

1. **Re Recommendation #11.1:** *"We recommend that the Division continue to develop and implement standards for court services and include a process for reporting on achievements."*

Court Services Division is in agreement that this recommendation should be followed and is continuing to work on the development of standards. As well, in the summer of 2003, the Court Services Division began work to develop a new business planning and reporting regime, which would include a viable reporting process on standards set.

2. **Re Principle Finding on Case Management, Paragraph 11.16:** *"The Division does not have a Province-wide system of documenting and tracking cases and identifying unreasonable delays."*

With software currently in use, Court Services can track global average times between first appearance and final disposition and has the ability to track individual delays. In addition, judges can track cases with their own docketing system. In September 2003, the Division established a project to create a scheduling package for use around the province. It will first be developed for the Supreme Court of Nova Scotia. It is anticipated that the software package developed will be able to provide statistical reports to assist in the analysis of delays.

As well, significant improvements to the Civil Index, the primary case management package in use throughout the province for civil matters, has been the subject of considerable improvements in 2003 and a major rewrite of the criminal case management package (JOIS/JEIN) will be complete in November 2003.

3. **Re Recommendation #11.2:** *"We recommend that cost and other financial analysis be included as part of program assessments."*

Court Services agrees with this recommendation and will ensure that future assessments and reviews of program and services include an enhanced cost and financial analysis.

4. Re Information Systems (Paragraph 11.24): *"Password changes are not required automatically on some systems, and the identification of inactive system users is not always timely. We were also concerned that there is no process for verifying the accuracy of case information entered into the civil case databases."*

Password changes are now required automatically on all systems and a process for the identification of inactive system users is now in place. As well, a verification process for the Civil Index has been developed and will be rolled-out across the province in the fall of 2003.

5. Re Court Fees (Paragraph 11.28): *"We advised that [a review of court fees] should provide a better description of the rationale for individual fee amounts."*

Court Services agrees with this recommendation and will implement it in the scheduled review of the *Costs & Fees Act* in 2003-2004.

6. Re Recommendation #11.3: *"We recommend the Division monitor the number of waiver applications received and the amount of fees waived..."*

Court Services Division agrees with this recommendation and modifications to the Civil Index are underway.

7. Re Recommendation #11.4: *"We recommend that the Division ensure all ticket booklets disbursed are properly recorded in the logbook. We also recommend the Division establish and implement a policy for the periodic review of confirmation receipts to ensure all forms are signed and returned as required."*

The Division agrees in principle with this recommendation and will take all steps within our authority to record the disbursement of booklets and monitor the return of confirmation receipts.

12 NOVA SCOTIA GAMING FOUNDATION - REVIEW OF OPERATIONS

BACKGROUND

12.1 The Nova Scotia Gaming Foundation was established in March 1998 pursuant to the Gaming Control Act and the Provincial Finance Act. The Nova Scotia Gaming Foundation Regulations set out the authority and accountability, and state that the Foundation receives, maintains and disburses funds for research and education regarding gambling or treatment and remediation of the effects of gambling.

12.2 Responsibility for the Foundation moved from the Nova Scotia Gaming Corporation and the Minister of Finance to the Minister of Health in 1999. In December 2002, the Office of Health Promotion was created and responsibility for the Foundation was transferred from the Department of Health to this new portfolio.

12.3 The Foundation's original Board was comprised of members of the Board of the Nova Scotia Gaming Corporation. In 1999, the Minister of Health appointed an interim board which was later replaced by a permanent board. The Board is currently comprised of five members, with the majority coming from the community at large and one member from a District Health Authority (DHA). Board members are appointed by the Minister for varying terms at the Minister's discretion. Current Board members were appointed for three-year terms with staggered expiry dates.

12.4 The Foundation's revenues come from two sources: VLT retailers contribute 1% of their commissions to the Foundation and the Nova Scotia Gaming Corporation matches the retailer contributions. For the year ended March 31, 2003, the Foundation's total revenues from both sources totaled $910,518. The Foundation had a fund balance of approximately $4 million as at March 31, 2002.

12.5 For 2002-03, the Foundation provided grants totaling $776,967 (2001-02: $574,740). Grants fall into several categories including community projects, research grants, operational grants and conference grants. Grant terms and amounts vary up to a maximum of $300,000 for a period over five years (see Exhibit 12.2 for details). Certain smaller grants for community projects are paid 90% in advance while other larger grants are paid out in installments over the life of the project. Progress reports may be required periodically based on the terms of the funding agreement with a final report required at the end of the project.

12.6 Community groups, charities, non-profit organizations, District Health Authorities (DHAs) and others are eligible to receive grants from the Foundation. Individuals and for-profit groups are not eligible for funding. (See Exhibit 12.1 for a description of the Foundation's reporting and funding relationships.)

12.7 The Foundation's financial statements are audited annually by this Office. For the year ended March 31, 2003, the Foundation had an unqualified audit opinion.

RESULTS IN BRIEF

12.8 The following are the principal findings from our review:

- The Board and staff of the Foundation have made progress in many areas since assuming responsibility in 1999. The Foundation has expanded its activities and operations and, at the same time, has been improving its administrative processes.

- The accountability relationship between the Foundation and government is not clear and we recommended this be clarified in the Memorandum of Understanding between the Office of Health Promotion and the Foundation.

- To date, the Foundation has not developed a process to monitor targets established in its strategic plan. We have recommended that the Board implement a formal process to monitor achievement of these targets.

- The Foundation's conflict of interest policy does not address the action to be taken when a conflict is disclosed. We have recommended that the Board expand its policy to include this.

- During the Foundation's stakeholder consultation process, lack of public knowledge of the Foundation and availability of grants was noted. The Foundation's website is a key part of its communication strategy and is under development. We have recommended that the Foundation develop a plan to address completing the website as soon as possible to allow greater access to grant information by applicants.

- Under the Foundation's current grant process, recipients of certain grant types continue to receive subsequent grant installments even if they do not file the required progress reports. We have recommended that the Foundation require formal progress reports be filed in order for applicants to continue to receive grant funds.

- The Foundation has a draft investment policy that deals with funds on deposit and the need to protect the principal invested. There is no long-term financial plan which addresses the fund balance to be maintained or projected grant funding. We have recommended that the Foundation formally approve the draft investment policy and develop a long-term financial plan.

SCOPE OF REVIEW

12.9 In March 2003, the Board of Directors of the Foundation wrote our Office to request a review of operations and our suggestions on items to include in a proposed Memorandum of Understanding with the Office of Health Promotion. Accordingly, our objectives for this assignment were to:

- review the operations of the Foundation and assess adequacy of policies and practices in the areas of governance, accountability to the Office of Health Promotion, relationship with District Health Authorities, and grants and investment policies and processes; and
- make recommendations to the Foundation regarding potential items for inclusion in a Memorandum of Understanding with the Office of Health Promotion.

12.10 It should be noted that this assignment was structured as a review engagement rather than an audit because the primary objective was to respond to the Board's request for advice. The engagement consisted mainly of review, inquiry and discussion and the extent of testing was less than an audit. Therefore, the level of assurance associated with our comments is less than for an audit engagement.

12.11 Our review of Foundation operations included interviews with Board members, the Foundation staff person, Directors of Addiction Services in DHAs and staff at the Office of Health Promotion as well as a review of documentation.

PRINCIPAL FINDINGS

Accountability

12.12 The Nova Scotia Gaming Foundation Regulations set out the authority and accountability of the Foundation: "*The Foundation shall be accountable to and under the authority of the Minister.*" (Section 4, Regulations) We noted no instances of non-compliance with the Regulations.

12.13 Board members expressed concerns that the Foundation was viewed as accountable to the Department of Health (DOH) prior to the transfer of responsibility to the Office of Health Promotion. Staff informed us that the lines of communication from the Minister often went through individuals at DOH rather than directly from the Minister to the Board. This did not appear to cause any operational problems or delays but the Foundation's perception was that it interfered with the Foundation's decision-making authority (see Exhibit 12.1 for a description the Foundation's reporting relationships). Since the transfer to the Office of Health Promotion (OHP), the Board Chair has met with the Minister of OHP and requested that any questions or direction come through the Chair or Foundation staff to the Foundation Board.

Recommendation 12.1

We recommend that the Foundation and Office of Health Promotion clarify the roles, responsibilities and accountabilities of both parties and incorporate this in any Memorandum of Understanding.

Governance

12.14 Strategic plan - The Board of Directors of the Foundation approved a strategic plan in late 2002 which is to be implemented during the period from 2002 to 2005. A draft strategic plan was prepared by the Board Chair and Program Administrative Officer for review by the Board. The Foundation's various stakeholders such as community groups and Addiction Services staff in the DHAs were not consulted during the strategic planning process.

12.15 Although the strategic plan includes measures, targets and expected results, many of the targets are not quantified, making it difficult for the Foundation to measure progress towards achieving these objectives. For example, one of the targets is to increase the number of applications. This could be improved by quantifying the percentage or number by which the Foundation hopes to increase applications

12.16 To date, the Foundation has not developed a process to monitor targets established in the strategic plan. There has been some discussion at the Board level regarding the need for monitoring but nothing had been finalized at the time of writing this Report.

Recommendation 12.2

We recommend that the Board consider implementing a formal process to monitor targets set out in the strategic plan.

12.17 Board composition - Nova Scotia Gaming Foundation Regulations require the Board of Directors of the Foundation to have at least three members. The current Board has five members, four from the community and one from the District Health Authorities. In our discussions, Board members noted their concern with the current composition of the Board; there are no women and no visible minorities represented on the Board. Three of the four Board members we spoke with indicated they felt the Board could function better with more Directors, suggesting that eight members would permit better discussion, bring additional perspectives to the table and could also help ensure the Board is more representative of the population being served. Board members' expenses to attend meetings are paid by the Foundation. The Board decided not to provide honoraria or any compensation for attendance at meetings.

Recommendation 12.3

We recommend that the Board further explore its composition and, if appropriate, request that the Minister appoint additional directors.

12.18 Conflict of interest policy - The Foundation's *Funding Application Procedures Manual* includes a section on conflict of interest which states "*Board members, committee members and Foundation staff are required to disclose any relationships with applicants that constitute actual or perceived conflicts of interest. These are disclosed in writing or by notation in the Foundation's minutes...*" The policy does not address what action is taken when a conflict is disclosed. Foundation staff informed us that Board members, committee members and reviewers are aware they must identify conflicts of interest with applicants and leave the meeting while that application is being discussed and voted on.

Recommendation 12.4

We recommend that the Foundation Board expand its conflict of interest policy to formally include action to be taken when conflicts are disclosed.

12.19 Board members and staff of the Foundation expressed concerns with potential or perceived conflict of interest. The Board Chair is a Director of Addiction Services for three District Health Authorities and he expressed concern that this could be perceived by the public as a conflict of interest. Some of the grants awarded by the Foundation include operational and project funding to DHAs and some Board members were concerned that the Chair's familiarity with the application process could be seen as giving those DHAs an unfair advantage.

12.20 Concern was also expressed regarding potential perceived conflict in the reporting relationship of the Foundation's sole employee. The Program Administrative Officer reports to the Director Addiction Services at the Office of Health Promotion (OHP). OHP recovers 100% of salary, travel, training and other costs for the Program Administrative Officer from the Foundation. Divisions of the OHP may apply for, and in the past, have received Foundation grants. Some Board members suggested that it would be better if the Program Administrative Officer reported directly to the Minister of the OHP rather than to the Director Addiction Services. In our opinion, this is a decision for the Minister of OHP.

Recommendation 12.5

We recommend that the following potential conflict of interest areas be addressed in a Memorandum of Understanding between the Foundation and the Office of Health Promotion:

- the Board Chair's role as a Director Addiction Services with the District Health Authorities and related role in applying for Foundation grants on behalf of DHAs; and
- the Foundation's sole employee's reporting relationship to the Director Addiction Services at the Office of Health Promotion when the Director has involvement in grant applications submitted by Addiction Services.

Grant Policies and Procedures

12.21 The Foundation's *Funding Application Procedures Manual* provides information to applicants on the types of grants available, eligibility requirements, excluded expenditures and required reporting over the life of the grant. This Manual is included in a brochure package which the Foundation will mail to interested persons on request.

12.22 The Foundation has a website which is under development. Application information had not been entered on the website at the time of writing this Report and the Foundation did not have a plan to address completion of the website on a timely basis. When the Foundation consulted various stakeholders in the fall of 2002 during preparation of the *Brand and Marketing Strategy Report*, lack of knowledge of the Foundation and the availability of funds was frequently cited as an area for improvement.

Recommendation 12.6

We recommend the Foundation complete its website to enhance communications and address related concerns reported in the *Brand and Marketing Strategy Report*.

12.23 Grant applications are reviewed by various committees comprised of individuals who have expertise in problem gambling. Research grant applications are submitted to a peer review and scoring process through the Nova Scotia Health Research Foundation to provide expertise in the research area. Operational grant applications are reviewed by committees consisting largely of Addiction Services staff from the various District Health Authorities. Community project grant requests are reviewed by qualified reviewers selected based on expertise. Applicants must include measurable objectives and explain how these objectives will be met. The applicant's score, narrative comments from the reviewer(s) and a recommendation on whether to fund are sent to the Board. The committees make recommendations only and the Board formally approves the grants. One exception is conference grants which are awarded by committee. This is a new type of grant that started in April 2003 and no conference grants had been awarded as of May 2003. For the 2002-03 application year, the Foundation approved 18 grant applications.

12.24 Once an application has been approved, the recipient must sign a contract with the Foundation. Contracts include information on use of funds, requirements for accounts to be maintained, a schedule for progress reports required and a requirement that unexpended funds be returned to the Foundation.

12.25 The Program Administrative Officer is responsible for overseeing grant payments and, where required, ensuring progress reports have been received prior to payments being released. Final reports are required for all grants and certain types of grants may require interim reports as well. In most cases, these reports are not tied to continued receipt of funding and do not have to be approved by the Board prior to the next grant installment being paid. Grant recipients will still receive funding if they do not submit reports on time. Reports are provided to the Foundation Board for information purposes only. There are two exceptions: annual progress reports must be submitted and approved by the Board before the next installment of multi-year research grants is released; and a final report must be received for certain community group grants before the remaining 10% of the grant is paid.

Recommendation 12.7

We recommend the Foundation require progress reports from grant applicants prior to payment of subsequent grant installments.

Investment Policies and Procedures

12.26 Investment policy - The Foundation has approximately $4 million in available funds which earn a rate of return of prime minus 2%. There is a draft investment policy which deals with funds on deposit and considers the need to protect the principal invested. At the time of our review, this policy had not been formally approved. The Board plans to ask the Department of Finance (DOF) for investment advice in order to achieve an increased rate of return with acceptable risk.

12.27 Long-term financial plan - The Foundation does not have a long-term financial plan to address whether a fund balance should be maintained, how large such a fund should be, or how much the Foundation should allocate to grants each year. The Board has an informal understanding that it will maintain a $2 million fund balance and that annual grants will be awarded approximately one third to each of operational grants, community projects and research grants.

12.28 The Foundation is aware that its existing policy needs to be expanded to address longer-term planning. This could be achieved by establishing parameters for the financial management of the Foundation in the strategic plan.

Recommendation 12.8

We recommend that the Foundation:
- formally approve its draft investment policy; and
- develop a long-term financial plan to address projected grant funding and capital to be maintained.

Memorandum of Understanding

12.29 The Foundation requested our advice on items to include in a proposed Memorandum of Understanding with the Office of Health Promotion. Our primary concern is to ensure adequate accountability for funds and internal controls in an environment with a volunteer board and only one staff person. We suggest the following items be considered for inclusion in the Memorandum of Understanding.

- Agreement on the Foundation's objectives and a determination of the types of programs which would qualify for Foundation funding with a general indication of related amounts
- Clarification of the Foundation's accountability relationship with the Office of Health Promotion including the types of decisions to be made by each
- Measurable performance targets which can be used to determine whether the Foundation has achieved its objectives
- A requirement for the Foundation to provide the Minister an annual business plan and an annual report of how it has achieved its objectives during that year with provision for tabling of each in the House of Assembly
- Clarification of the roles, responsibilities and reporting relationships of the Board, the Foundation's staff person, the Minister of the Office of Health Promotion, the staff of the Office of Health Promotion, and major stakeholders such as District Health Authorities
- Agreement on the reporting relationship of the Foundation's sole employee to the Office of Health Promotion
- Agreement on the long-term financial plan of the Foundation (see recommendation 12.8) and estimated funding for the next three to five years
- An indication of how the Foundation and Office of Health Promotion will work together to ensure eligible grant recipients are made aware of grant availability
- Clarification of how the Foundation's administrative expenses will be funded

- Agreement on how the Board composition can be changed to be more representative of the population being served

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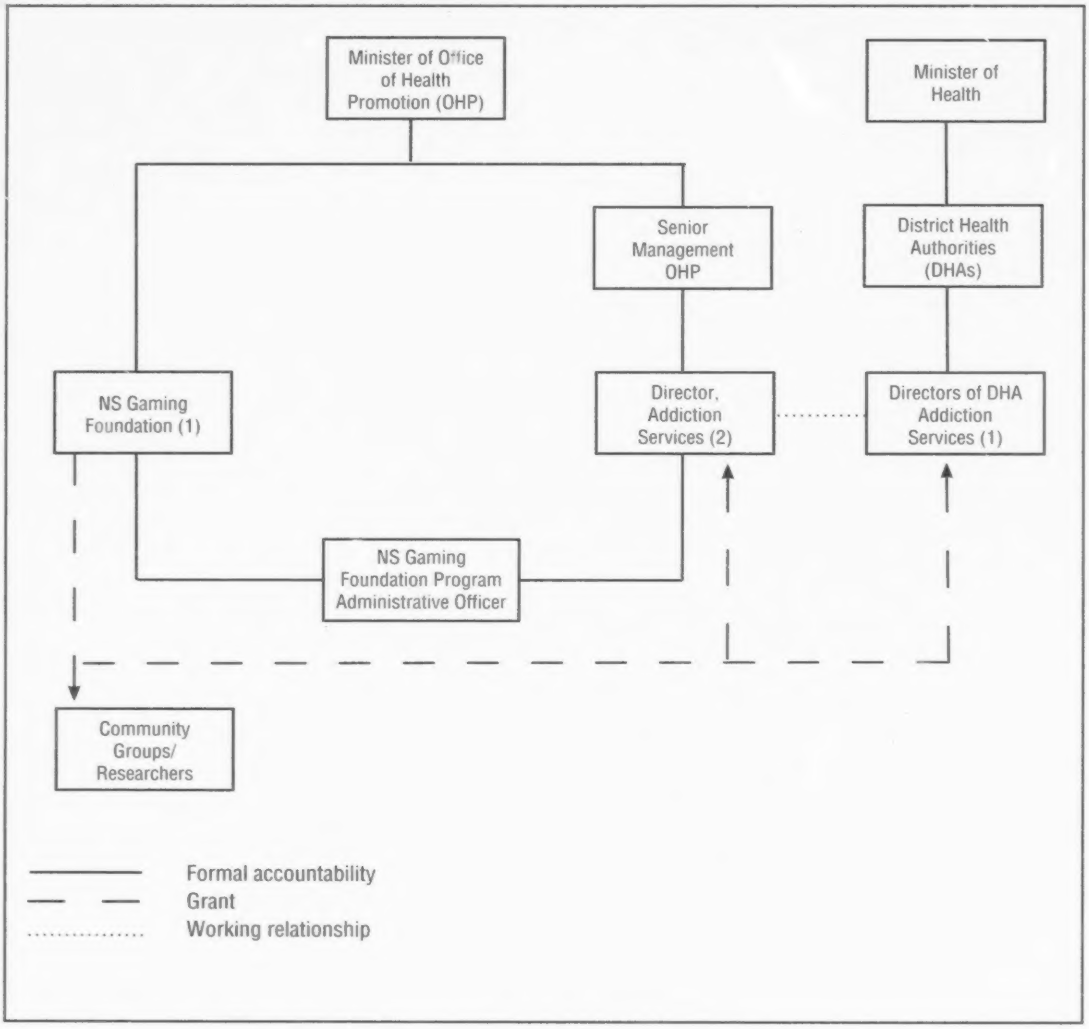
CONCLUDING REMARKS

12.30 The Board and staff of the Foundation have made progress in many areas since assuming responsibility in 1999. The Foundation has expanded its activities and operations and, at the same time, has been improving its administrative processes.

12.31 The relationship between the Foundation and the Office of Health Promotion is a major area of concern for the Foundation. We have provided the Foundation with a list of items to consider for inclusion in a Memorandum of Understanding with the Office of Health Promotion with a view towards clarifying the relationship. The Foundation should also work on its own accountability for funds by implementing a requirement for grant recipients to provide progress reports prior to payment of subsequent grant installments and by developing a long-term financial plan to ensure the continued financial viability of the Foundation.

Exhibit 12.1

Relationships with Key Stakeholders


Minister of Office of Health Promotion (OHP)
Minister of Health
Senior Management OHP
District Health Authorities (DHAs)
NS Gaming Foundation (1)
Director, Addiction Services (2)
Directors of DHA Addiction Services (1)
NS Gaming Foundation Program Administrative Officer
Community Groups/ Researchers
Formal accountability
Grant
Working relationship

(1) The Nova Scotia Gaming Foundation's Board Chair is a DHA Director of Addiction Services.

(2) The incumbent is a former Board Chair of the Nova Scotia Gaming Foundation

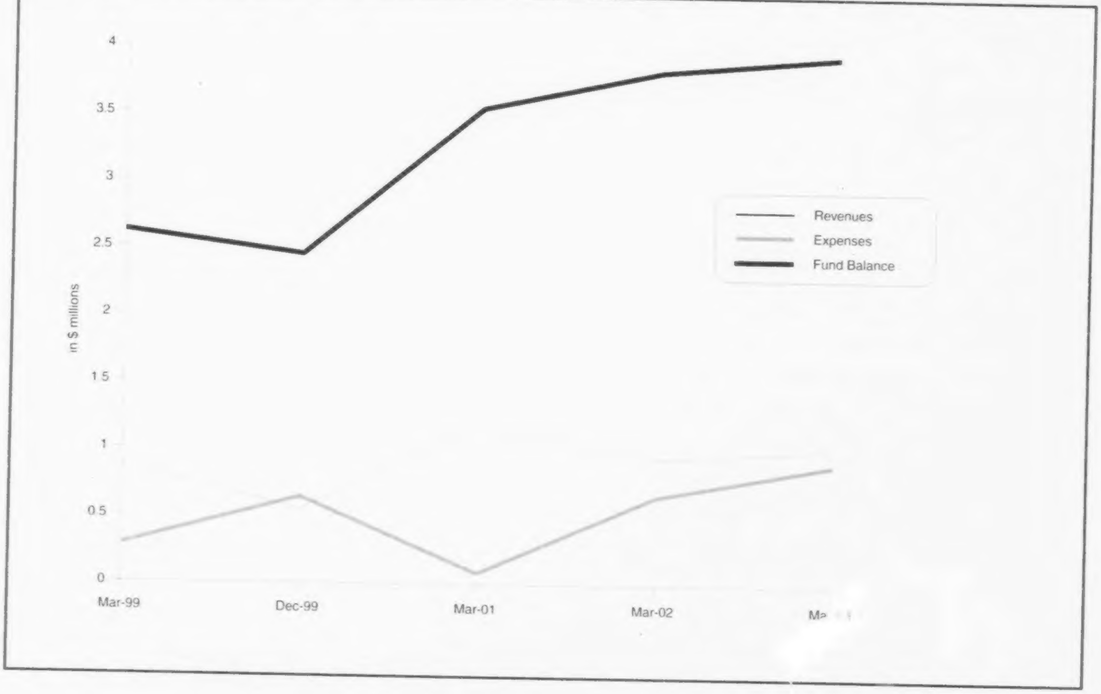
Project Types and Funding Levels

Exhibit 12.2

Project Type	Funding Levels
Community Project I	up to $10,000
Community Project II	$10,000 to $60,000 (over 3 years)
Community Project III	up to $300,000 (over 5 years)
Research Grant I	up to $60,000 (over 3 years)
Research Grant II	up to $300,000 (over 5 years)
Community Group Operational Grants	amounts vary

Nova Scotia Gaming Foundation Fund - Financial History

Exhibit 12.3



NOVA SCOTIA GAMING FOUNDATION'S RESPONSE

The Board of Directors of the Nova Scotia Gaming Foundation (NSGF) was pleased to receive the Report of the Broadscope Review of the Foundation's operations conducted earlier this year. In general, the Board found the Report very instructive in helping to clarify issues and to illuminate future directions. The Board devoted a full morning of one of its regular meetings to an initial review of the Report, and, subsequently, carried out a more detailed facilitated review, which resulted in the identification of a number of tasks and directions specific to each recommendation. The developments to date follow:

***Recommendations* 12.1 *and* 12.5** - Memorandum of Understanding with Office of Health Promotion

The Foundation's Board and the Office of Health Promotion strongly support development of a Memorandum of Understanding (MOU). There was ready agreement to initiate a process to develop the MOU and a small Task Group, consisting of Office of Health Promotion and NSGF representatives, was put in place. It is anticipated that those items noted in the Broadscope Review as being relevant to the content of the MOU will be addressed. The issue of the Foundation's mandate, notably the ambiguity of the mandate, is of particular interest and, again, will be addressed in the MOU.

***Recommendation* 12.2** - Strategic Plan for NSGF

The Board agrees that the Strategic Plan for the Foundation should be updated and that appropriate stakeholder consultation should [be] an important part of the process for developing the plan. The Board identified that there was also a need for updated Business and Operational Plans as part of a larger planning framework.

It is the Board's sense that in order to properly plan and to communicate with stakeholders there must be clarity regarding the mandate (and mission/vision) of the Foundation. The legislation is vague on this issue, and, accordingly, while the Foundation began with what appeared to be a fairly clear mandate, this has been amended over time as understanding of the role of the Foundation has evolved and as circumstances have appeared to warrant. The result, however, is that, as suggested above, there is currently ambiguity and unclarity with respect to the mandate - which we expect will be cleared up in and through the MOU.

The Board would foresee planning processes flowing from this preliminary work focusing on mandate, roles and relationships.

Recommendation 12.3 – Board Composition

Several representations have been made encouraging the appointment of additional Board members and calling attention to the need for greater diversity of membership. The Board has also advised that there have been lengthy delays in appointing/replacing Board Members. We have noted that vacancies on the NSGF Board were included in a recent newspaper ad depicting openings on various provincial Agencies, Boards and Commissions. This issue is somewhat beyond the control of the Foundation, but we will continue to advocate for its resolution to such an extent as seems warranted.

Recommendation 12.4 - Conflict of Interest Policy and Procedures

As was noted during the review, this issue has been of special interest to the Board for some time. To some extent, the Board sees 'conflict of interest' as tied to the issue of what it means for the Board to function in an 'arm's length' capacity from government and, more specifically, from the Office of Health Promotion.

The Board has begun to develop written policies and procedures with respect to conflict of interest. Initial work has been completed regarding conflict of interest pertaining to the review of applications. The next step will be to formalize and approve policies and procedures to guide the activities and decision-making processes of the Board's Directors. The Board regards this as a matter of considerable importance.

While it has been our hope that issues pertaining to accountability and the relationship of the Foundation to the Office of Health Promotion would be addressed within the MOU, I am pleased to advise that events themselves have actually been proceeding somewhat more quickly. All parties agree that there should be, and should be perceived to be, an arm's length relationship between the Foundation and the Office of Health Promotion. To this end, the decision has been taken to relocate the Foundation's operations.

The Board will also be proceeding with plans to restructure its staffing. Specifically, the Board intends to create an Executive Director position, reporting directly to the Board, along with a 60% clerical/administrative support position, reporting to the Executive Director.

These various undertakings should together permit resolution of the outstanding concerns related to conflict of interest.

Recommendation 12.6 - Communications and Web Site

Continued development and refinement of the Foundation's Web Site is progressing through contracted services. As well, the Foundation has contracted with a third party to evaluate and revise all application forms and reporting forms. The goal of this initiative is to ensure that all our forms are as 'user friendly' as possible, while still maintaining accepted standards related to quality of information and accountability.

Recommendation 12.7 – Progress Reports from Applicants for Subsequent Funding Disbursements

The Board agrees with and will act on this recommendation. Additionally, the requirement will be included in future contracts between the Foundation and grant recipients.

Recommendation 12.8 – Investment Policy and Financial Plan

After a number of unsuccessful attempts to obtain investment advice and assistance in developing a long-term financial plan, from external sources, the Board will be attempting to deal with this need with the assistance of the Chief Financial Officer for the Department of Health/Office of Health Promotion.

The foregoing summarizes the Nova Scotia Gaming Foundation's response to the Broadscope Review.

Crown Agencies and Corporations

13 MUNICIPAL FINANCE CORPORATION

BACKGROUND

13.1 The Nova Scotia Municipal Finance Corporation (MFC) was established by statute in 1979 to borrow money on the open markets and provide loans to municipalities, municipal enterprises, school boards and hospitals. The central borrowing authority concept is widely used in Canada and the United States as a cost effective, efficient means of raising long-term debenture funds to finance municipal and other public capital projects. Studies have shown that smaller municipalities with lower credit ratings receive the greatest interest savings and all municipalities may benefit from savings in the cost of administering debenture issues.

13.2 The Corporation's purpose is to provide low cost financing to its clients. All borrowing by municipalities, municipal enterprises and Regional School Boards in Nova Scotia must flow through the Corporation. Permitted exceptions include capital projects funded directly by the Province (e.g., school construction), short-term financing, and certain projects for which funds may be borrowed from other governments. As well, District Health Authorities may finance hospital capital projects through MFC if they wish to do so. The Corporation offers several programs, including debenture financing, short-term loans and bridge financing.

13.3 As of March 31, 2002 MFC administered $500 million of assets and a similar amount of liabilities. Approximately 50% of all loans are to Halifax Regional Municipality (Exhibit 13.2). All loans are approved or guaranteed by the related municipal council, with the exception of certain loans to Halifax Regional Water Commission. Debentures issued by the Corporation are guaranteed by the Province. All outstanding debentures of the Corporation are in Canadian funds and many have been bought by the Province. The Corporation's approved borrowing requirement for 2002-03 was $100 million and its administrative budget was $289,425.

13.4 The Corporation is governed by a five-member Board of Directors appointed by Executive Council. Two of the members (40%) are appointed on the recommendation of the Union of Nova Scotia Municipalities. The Corporation has three staff members and is supported by staff and resources of the Provincial Departments of Finance, Justice, and Service Nova Scotia and Municipal Relations.

13.5 The annual financial statements of the Corporation are audited by a public accounting firm. This is our second audit of the Nova Scotia Municipal Finance Corporation. We reviewed the operations of the Corporation in 1987 and presented the audit in that year's Report of the Auditor General.

RESULTS IN BRIEF

13.6 The following are our principal observations from this audit.

- The Corporation is complying with its reporting requirements and is providing timely information to the Minister.
- The Corporation's 2000-01 and 2001-02 Annual Reports were not tabled in the House of Assembly, but the 2001-02 report was available in the Legislative Library.
- We recommended that the Corporation report progress related to its main objective of providing funds at the lowest possible cost.
- The Corporation is complying with requirements of the Municipal Finance Corporation Act and Provincial Finance Act.
- The Corporation has a timely budget process and cash flow projections are prepared on a regular basis. The Corporation prepares monthly financial reports and submits them to the Board of Directors and the Department of Finance.

AUDIT SCOPE

13.7 In February 2003 we completed a broad scope audit of the Nova Scotia Municipal Finance Corporation in accordance with Sections 8 and 15 of the Auditor General Act. Our audit was performed in accordance with auditing standards established by the Canadian Institute of Chartered Accountants, and accordingly included all tests and other procedures we considered necessary in the circumstances.

13.8 The objectives of this assignment were to review and assess:

- quality and timeliness of reporting to the Minister responsible for the Corporation and the House of Assembly;
- compliance with Provincial legislation and regulations; and
- planning, monitoring and control of the financial operations of the Corporation.

13.9 Audit criteria were developed to assist in the planning and performance of the audit. The criteria were discussed with and accepted as appropriate by the Corporation. The criteria are described in Exhibit 13.1. As part of this assignment, we interviewed the staff of the Corporation, as well as staff of the Departments of Service Nova Scotia and Municipal Relations and Finance. We also examined minutes, financial statements, internal and external reports and many other documents related to the Corporation.

PRINCIPAL FINDINGS

Accountability

13.10 We examined reporting by Municipal Finance Corporation and assessed it against specified accountability requirements and other expectations for quality performance reporting.

13.11 Accountability requirements - The Corporation's accountability and reporting requirements are defined in the Municipal Finance Corporation Act and the Provincial Finance Act. The Corporation's Act requires that an annual estimate of administration expenditures be presented to the Minister each year. The Corporation must also present its year-end financial statements and Auditor's Report to the Minister of Service Nova Scotia and Municipal Relations, the Minister of Finance, and the clerk of each municipality in Nova Scotia.

13.12 The Provincial Finance Act defines the Corporation as a government service organization and requires year-end financial statements to be submitted to the Minister of Finance by June 30 following the year end, and financial statements to be tabled in the House of Assembly. In addition, the Provincial Finance Act requires the Corporation to submit its business plan and any proposed public financing to the House of Assembly.

13.13 We concluded that the Corporation is complying with its reporting requirements and is providing information in a timely and complete manner. We observed the following accountability-related matters.

- Financial statements are prepared, reviewed by the Board of Directors and sent to the Department of Finance each month.
- The 2002-03 administrative budget was sent to the Minister and received approval in December 2001.
- The 2002-03 estimated annual borrowing requirement was approved by the Board of Directors and received Executive Council approval before March 31, 2002, and was included in the 2002-03 business plan tabled in the House of Assembly.
- The 2002-03 business plan was approved by the Board of Directors and the Minister before December 31, 2001, and summarized in a compilation of government business plans tabled in the House of Assembly.
- The 2001-02 Annual Report, including audited financial statements, was sent to Minister of Service Nova Scotia and Municipal Relations and the Minister of Finance in August 2002. The audited financial statements were included in Volume 2 of the 2001-02 Public Accounts tabled in the House of Assembly.
- The Corporation's financial statements, Annual Report, business plan and other information are available on its Internet website.

13.14 However, we found that the Corporation's 2000-01 and 2001-02 Annual Reports were not tabled in the House of Assembly, though the 2001-02 Report is available in the Legislative Library.

Recommendation 13.1

We recommend that the Corporation's Annual Reports be tabled in the House of Assembly on a timely basis.

13.15 Performance reporting - The Corporation prepares an annual business plan which is consolidated with other Provincial department and agency plans and presented to the House of Assembly by government. The Corporation's 2002-03 plan included information on its mission, mandate, strategic goals, core business areas, priorities, prior year's performance, as well as outcomes and outcome measures. Much of the information presented in MFC's annual business plan is also included in its Annual Report.

13.16 The Corporation's mission is "*to utilize credit enhancement and debt pooling techniques to meet clients' approved funding requirements at the lowest possible cost.*" The Corporation's first strategic goal, first core business area, first priority and first defined outcome include providing financing at the lowest cost of funds. However, we did not find anything in the Corporation's business plan or Annual Report describing specifically whether the Corporation has had success in providing funds to its clients at the lowest possible cost.

Recommendation 13.2

We recommend that the Corporation report on its achievements related to the goal and priority of providing funds at the lowest possible cost.

Compliance with Legislation

13.17 The Corporation was created by the Municipal Finance Corporation Act in 1979. Since it is a corporation created by statute, it has no memorandum of association or articles of incorporation. The Act notes the object of the Corporation is "*to provide financial assistance for municipalities, municipal enterprises and hospitals through a central borrowing authority.*" For purposes of the Act, school boards are defined as municipal enterprises.

13.18 We reviewed the Corporation's Act and the Provincial Finance Act and concluded that the Corporation is complying with the requirements of these pieces of legislation. We noted that the Corporation's general counsel is also counsel for the Department of Finance which helps ensure the Corporation complies with all legislated and contractual requirements.

13.19 The Corporation's business plan states "*Under current provincial policy, the Corporation funds municipal and municipal enterprise capital projects and some school board projects.*" During our review of Board of Directors minutes for the last three years we noted discussion and approval of other policies. However, there is generally no documentation of such policies outside of the minutes and the Corporation mainly relies on the memory of Directors and staff.

Recommendation 13.3

We recommend that all policies related to the Corporation be documented and accumulated in a comprehensive reference source.

Financial Management

13.20 We examined a number of areas related to financial management. Our findings are reported in the following paragraphs.

13.21 Business planning - The Corporation prepared a business plan for the 2002-03 fiscal year at the request of government's Treasury and Policy Board. The plan was approved by the Corporation's Board of Directors and the Minister, and submitted to Treasury and Policy Board as requested. The business plan documents the Corporation's goals, objectives, performance measures and outcomes, as well as its priorities for the coming fiscal year, and generally complies with guidelines provided. We observed, however, that some information in the business plan needs to be updated for current practices. For example, the plan indicates that "*an annual assessment of markets, debentures, loans and corporate activity*" is a priority and also discusses this matter under 2001-02 performance, but the annual assessment is no longer prepared.

Recommendation 13.4

We recommend the business plan be updated to reflect the current practices of the Corporation.

13.22 Cash flow analysis - Cash flow projections are prepared by the Corporation on a regular basis. The projections include both short-term analysis (one year) and longer-term analysis spanning the length of debenture issues. Both the short and long-term cash flow analysis include all scheduled debt repayment as well as all other significant sources and uses of cash. The analysis prepared by the Corporation is sufficient to enable decision making for annual and longer-term plans.

13.23 Budgeting - The Corporation has a timely budget process. In early December 2001, the Board of Directors approved the Corporation's administration budget for the next fiscal year. The 2002-03 budget was submitted to and approved by the Minister of Service Nova Scotia and Municipal Relations in December 2001

13.24 The Corporation also prepares a budget of the expected funding needs (i.e., borrowing and lending) for the next fiscal year. The 2002-03 financing budget was approved by the Board of Directors in February 2002 and approved by Executive Council on March 1, 2002.

13.25 Financial reporting - The Corporation prepares monthly financial reports on a timely basis and submits them to the Board of Directors for review and approval. After approval, the reports are sent to the Department of Finance for use in preparing consolidated financial reports for the Province. The Corporation's year-end financial statements are audited and submitted to the Minister of Service Nova Scotia and Municipal Relations. There are regular Board of Directors' meetings and quarterly meetings with the Minister to discuss the Corporation's financial performance.

13.26 Creditworthiness analysis - Municipalities determine their capital financing needs and send funding requests and municipal council Temporary Borrowing Resolutions to the Corporation. The Corporation summarizes the funding requirements and forwards the information to the Municipal Services Division of the Department of Service Nova Scotia and Municipal Relations. The Department reviews each funding request, calculates a debt service ratio for each municipality, ensures each request is for an acceptable purpose, and submits recommendations to the Minister for approval. MFC relies on the analysis and recommendations of Department staff to determine the creditworthiness of municipalities and municipal enterprises.

13.27 We examined the Corporation's experience with respect to the payment of current and past loans by its clients. Per discussions with management, loan payment history has been excellent. In the last several years, there has been only one late payment on a loan. All subsequent payments from that client have been made on time.

13.28 A committee of staff from the Department and MFC was convened to review and revise the creditworthiness process. There were no committee minutes available for our review. However, we were informed that there had been three meetings to the date of our audit and the committee's draft report on alternative approaches to the municipal borrowing process was being reviewed by Department senior management.

13.29 Audit recommendations - The Corporation implemented business process changes recommended by its external auditor in past years. There were no recommendations resulting from the 2002 financial statement audit. Our 1987 audit recommended that the Corporation reassess the need for its Reserve Fund, computerize the debenture and loan functions, and amend the Municipal Finance Corporation Act to permit charging of administrative costs not paid by the

Province to the Reserve Fund and/or municipalities, hospitals and school boards. Each recommendation was implemented by the Corporation.

CONCLUDING REMARKS

13.30 Nova Scotia Municipal Finance Corporation is accountable to its Minister and the House of Assembly, and meets all of its legislated accountability requirements. We recommended formal tabling of the Corporation's Annual Report in the House of Assembly each year.

13.31 We concluded that the Corporation complies with requirements of Provincial legislation and regulations. We also believe there is appropriate planning, monitoring and control over the Corporation's financial operations.

Audit Criteria

Exhibit 13.1

Audit criteria are reasonable and attainable standards of performance and control, against which the adequacy of systems and practices can be assessed. They relate to the audit objectives developed for an assignment and are used to design detailed audit tests and procedures.

The following criteria were used in our audit of the Nova Scotia Municipal Finance Corporation.

- Reporting to the government and Minister should be timely. The Annual Report of the Corporation should be tabled in the House of Assembly on a timely basis. Accountability reporting should adequately address all significant areas of corporate responsibility and performance. There should be adequate systems to ensure the accuracy and completeness of information reported.

- Management should be aware of all legislation, regulations and agreements which apply to the Corporation. The Corporation should comply with all applicable legislation, regulations and agreements. Management should monitor the Corporation's compliance with legislation, regulations and agreements.

- There should be adequate planning and budgeting for the financial requirements of the Corporation. There should be regular and timely monitoring of financial performance. There should be adequate control over the assets, liabilities, revenues and expenditures of the Corporation.

Exhibit 13.2

Outstanding Loans Over $5 Million - As at March 31, 2002

Regional Municipalities	
Halifax	$ 243,514,556
Cape Breton	19,612,764
Under $5 million	3,498,599
Total Regional Municipalities	**266,625,919**
Towns	
New Glasgow	6,039,992
Under $5 million	41,641,619
Total Towns	**47,681,611**
Other Municipalities	
Annapolis County	5,573,354
Colchester County	21,150,165
Kings County	9,591,091
Under $5 million	25,999,227
Total Other Municipalities	**62,313,837**
Municipal Enterprises	
Halifax Regional Water Commission	66,291,500
Under $5 million	9,280,462
Total Municipal Enterprises	**75,571,962**
Province of Nova Scotia	**29,605,681**
Total Loans	**$ 481,799,010**

Information in this exhibit was obtained from the 2002 *Annual Report of the Nova Scotia Municipal Finance Corporation*. The Report contains details of all loans outstanding as at March 31, 2002.

Outstanding Loans By Purpose - As at March 31, 2002

Exhibit 13.3

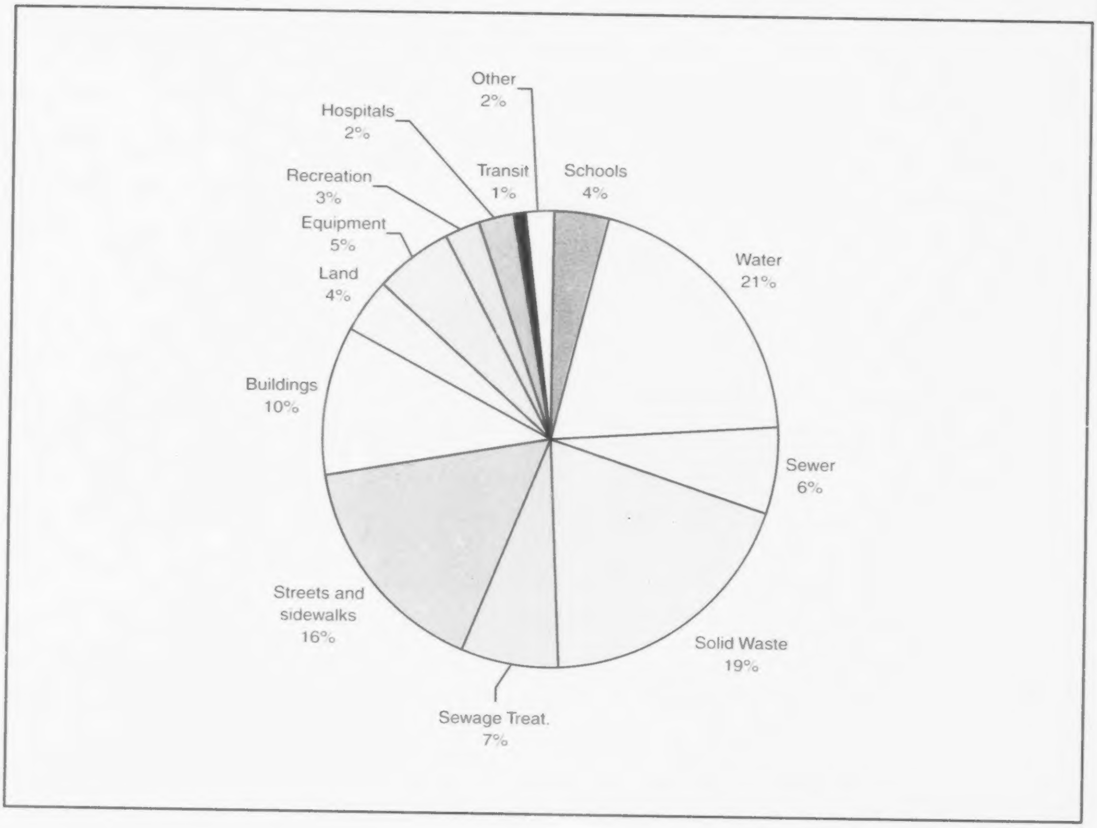
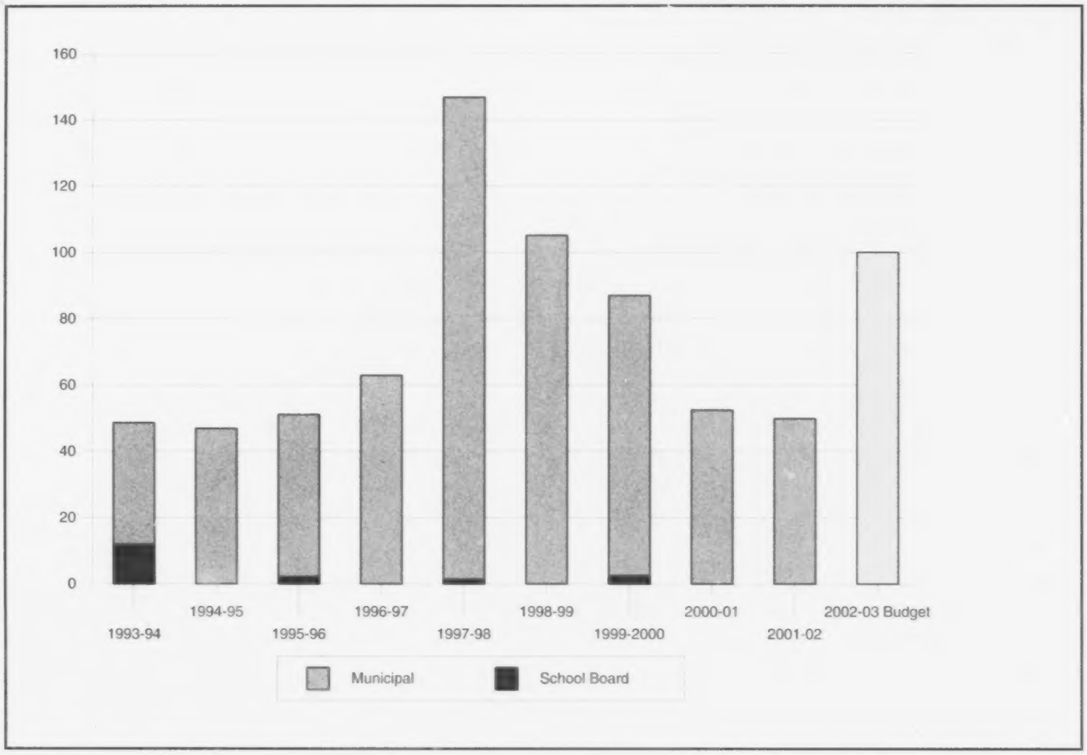


Exhibit 13.4

Long-term Loans Made During Year - As at March 31 ($ Millions)



Information in this exhibit was obtained from the 2002 Annual Report of the Nova Scotia Municipal Finance Corporation.

14 NOVA SCOTIA INNOVATION CORPORATION

BACKGROUND

14.1 The Nova Scotia Innovation Corporation (In*NOVA*corp) was established in 1994 by the Innovation Corporation Act. The objectives of the Corporation are noted in the Act, and include the following:

- *"... to allow for technological development and commercialization in priority technology areas defined by the Corporation;*
- *become a strategic equity partner in joint-venture, private-sector technology initiatives; and*
- *provide incubator facilities to new technology enterprises and business support services to growing technology organizations..."*

14.2 The creation of In*NOVA*corp consolidated several technology organizations owned by the Province, including the Nova Scotia Research Foundation Corporation (NSRF). The Act also transferred the administration of and responsibility for the Nova Scotia First Fund (NSFF) to In*NOVA*corp. At that time, the Fund was being administered by the Department of Finance.

14.3 The Innovation Corporation Act allowed for the dissolution of the Nova Scotia Research Foundation Corporation. This took place in 1996 and the net assets of NSRF were transferred to In*NOVA*corp. Over time, the activities of In*NOVA*corp have shifted from those previously associated with the NSRF, such as lab and environmental testing. In*NOVA*corp is now focused on technology commercialization, with three activities as described below:

- Investing - designed to support promising entrepreneurs from start-up through to first-stage expansion.

- Mentoring - provided through direct support using In*NOVA*corp staff and affiliations with organizations such as the National Research Council; through peer networking; and through In*NOVA*corp's on-line service delivery tool.

- Incubation - provided through space and services to early-stage technology companies, especially those in the life sciences and information technology sectors. Incubation offers services, resources and guidance that many entrepreneurs do not have the skills, time, money or desire to handle or otherwise access on their own.

14.4 The head office of In*NOVA*corp is located in Dartmouth. The Technology Innovation Centre (TIC) is also in Dartmouth, and is one of two incubation facilities operated by In*NOVA*corp. The financial position and operating results of TIC are fully consolidated with In*NOVA*corp. The company's other incubation facility, BioScience Enterprise Centre Incorporated is located in Halifax, in a facility owned by another crown corporation (Waterfront Development Corporation). In*NOVA*corp also owns 77% of a subsidiary company, The Decision Point (TDP). The financial position and operating results of TDP are fully consolidated with In*NOVA*corp. The Corporation employs 47 staff, including 10 at its incubation facilities.

14.5 We conducted this audit under Section 15 of the Auditor General Act. This was our first broad scope audit of the Nova Scotia Innovation Corporation. We conducted a broad scope audit of the Nova Scotia Research Foundation Corporation in 1994. The Auditor General is the financial statement auditor for In*NOVA*corp.

RESULTS IN BRIEF

14.6 The following are the principal observations from this audit.

- We concluded that many of the audit criteria, used to assess whether our overall audit objectives were achieved, were met, particularly with respect to the governance and accountability functions. However, corporate policies and procedures require updating to better reflect the changed strategy and focus of In*NOVA*corp.
- Terms of reference for the Investment Review Committee should be documented and approved by the Board of Directors. The terms of reference should include authorization limits, meeting protocols and roles and responsibilities. Terms of reference should also detail the nature and frequency of reporting to the Board.
- The Board should identify and approve roles and responsibilities for Officers of the Corporation. Authorization limits should also be established.
- Senior management should review and update the program administration guidelines for the Nova Scotia First Fund. These guidelines should include investment eligibility criteria, and should clearly differentiate the policies related to uncommitted funds. The guidelines should be approved by the Board as it has overall responsibility for administration of the Fund.
- A system to monitor, measure and report on performance should be developed. Focus should be given to those areas which are critical to the success of, or represent a significant risk to, In*NOVA*corp's mission.
- Criteria upon which bonuses are based should be clearly defined and communicated to the employees in question. There should be formal, documented evaluations against these criteria to support the determination of bonuses.

- Any costs associated with the investment or services provided to In*NOVA*corp's subsidiary, The Decision Point, should be included in In*NOVA*corp's operating results.

- In*NOVA*corp should update the documentation of its procurement policies and procedures. These policies and procedures should be compatible with Provincial requirements, detail when a competitive process is required, and address the use of purchasing cards.

14.7 Subsequent to completion of our audit, management informed us that progress had been made toward implementing the above recommendations. For example, updated terms of reference have been drafted for the Investment Review Committee, and roles and responsibilities for corporate officers have been drafted in connection with an overall policy related to delegation of authority. An updated investment policy has also been drafted. Procurement policies and procedures are to be updated to reflect current In*NOVA*corp strategy, and to be compatible with Provincial procurement policies and procedures. Management has further indicated that a performance management system has been developed. We have not verified any of these representations made by management.

AUDIT SCOPE

14.8 We conducted the audit of In*NOVA*corp in early 2003. The summary objectives for this assignment were to assess the overall governance, accountability, management and control arrangements for selected aspects of the operations of the Nova Scotia Innovation Corporation, and to conclude whether there is adequate:

- compliance with statutory and other enabling authorities or requirements;

- control systems, procedures and practices; and

- due regard for economy and efficiency.

14.9 Criteria were developed to facilitate our review. These criteria were discussed with senior management at the Corporation prior to the start of the audit and were revised as a result of those discussions.

14.10 Our approach to this assignment consisted of interviews with staff and senior management at In*NOVA*corp, the current and former Board Chairs, and the Chair of the Investment Review Committee. We also met with the Chief Executive Officer of the Office of Economic Development. We reviewed minutes for the period under audit (April 1, 2001 to December 31, 2002), and examined documentation relevant to our assessment of the audit criteria. In addition, we conducted a governance survey of all members of the Board of Directors and of the Investment Review Committee. The results of that survey are noted in paragraph 14.18 below. Relevant comments and observations resulting from the survey have been noted throughout the chapter.

PRINCIPAL FINDINGS

Governance and Accountability

14.11 Summary - We concluded that many of the audit criteria used to assess the governance and accountability functions were met. For example, the Corporation has a vision and mission which are reaffirmed during the annual planning process, and which are consistent with the Innovation Corporation Act. The Board meets as required by legislation, and a review of Board meeting minutes indicates the Board is focused on the direction of the Corporation.

14.12 There were audit criteria which we determined as being only partially met, or not met. The following paragraphs focus on the most significant observations resulting from our assessment of these criteria.

14.13 Investment Review Committee - The Investment Review Committee was established in 1996 under the program management guidelines for the Nova Scotia First Fund. These guidelines were approved by In*NOVA*corp's Board of Directors and consequently the Committee is viewed as a committee of the Board.

14.14 There are several findings with respect to the Investment Review Committee.

- There are no terms of reference for the Investment Review Committee. The NSFF's program management guidelines note that the Committee is to approve projects receiving funding. However, the guidelines do not identify roles and responsibilities for the Committee such as approval limits.

  In addition, administrative guidelines for the Committee have not been documented. These would include number and frequency of meetings, number of votes needed for a quorum, and specify the procedures to be followed when a meeting is conducted through e-mail. Although our review of Committee minutes revealed that various guidelines have been established over time, they should be formalized and approved by the Board as part of the Committee's terms of reference.

  Finally, the guidelines do not specify whether the Committee should report to the Board on its activities. We noted that information is provided to the Board at each of its meetings on the status of the various investments. This information is provided by staff, not by the Committee. It is our view that there should be a more formal reporting process between the Committee and the Board, given that the Board has delegated responsibility for administering the Fund to the Committee.

- A sub-committee was established by the Investment Review Committee to approve certain investments. Because the Investment Review Committee does not have terms of reference, the authority under which it was able to establish this sub-committee, and delegate authority to it, is unclear.

- Conflict of interest guidelines were approved by the Investment Review Committee. A member of the Committee suggested that these guidelines be updated on an annual basis, but this has not been done.

- The Committee includes members of the Board and four individuals who are not members of the Board. We were informed the membership was expanded in this way to provide additional expertise and objectivity to the investment approval process.

- The program management guidelines for the NSFF establish the members of the Committee. The guidelines note that one private sector member who is "project specific" may be added to the Committee. The decision to expand the Committee to include private sector individuals on an ongoing basis was not approved by the Board.

Recommendation 14.1

We recommend that terms of reference for the Investment Review Committee should be documented and approved by the Board of Directors. The terms of reference should include authorization limits, meeting protocols and roles and responsibilities, as well as formalize the reporting process between the Committee and the Board.

14.15 Corporate officers - The Corporation's bylaws provide that the Board can appoint officers. We noted approval of the slate of officers submitted for approval at each of the annual meetings during the period of our audit.

14.16 Roles and responsibilities for these officers have not been established and approved by the Board and we recommend this be done. In particular, we recommend that authorization limits be established. This practice would be consistent with other Provincial entities that provide economic assistance to businesses through loans, investment and other mechanisms.

Recommendation 14.2

We recommend that the Board identify roles and responsibilities for officers of the Corporation. Authorization limits should also be established.

14.17 Other governance issues - The following are additional observations on overall governance matters.

- There are no conflict of interest guidelines for the Board of Directors. Guidelines should be established and approved by the Board, and updated on an annual basis.

- The Board has established a Nominating Committee. Formal terms of reference have not been approved by the Board although the roles and responsibilities of the Committee appear to be clear. Minutes are not kept of the Committee's proceedings and we suggest this be done.

- Although the Corporation appears to follow appropriate business practices in its day-to-day operations, policies and procedures related to business activities have not been documented, or existing documentation is not current. Senior management has indicated documentation of policies and procedures has not been a priority as the Corporation continues its transformation from NSRF activities to InNOVAcorp's three core business areas.

  The Province recently released revised Management Manuals. The corporate administrative policies and procedures contained therein are applicable to crown corporations to the extent they do not conflict with their existing practices. InNOVAcorp should document its policies and procedures to ensure they reflect the Corporation's activities or adopt the Provincial Management Manuals.

14.18 Governance survey - We conducted a survey of members of the Board of Directors, and included in this process those members of the Investment Review Committee who are not members of the Board. There was a 36% response rate. We also conducted interviews with the current and past Board Chairs. The following are the more significant observations resulting from these processes.

- Board members are satisfied with the extent of communication from the Office of Economic Development. They are clear on the direction of the Corporation and its role in the Province's overall economic development strategy.

- Board members also indicated they are satisfied with the frequency and content of reports received from management on the operating and financial results of the Corporation.

- One of the questions posed in the survey was whether the Board has undertaken a self-assessment process. The responses indicated this has not been done. We suggest the Board conduct a periodic review on all matters of corporate governance.

- An evaluation of the Chief Executive Officer was conducted during the period of time audited. Survey results indicate this is a regular process. However, the process does not include documented goals and objectives for the CEO, and a related evaluation of results achieved.

14.19 Accountability - The governance and accountability framework of the Corporation is detailed in Exhibit 14.1. In prior years, the Corporation prepared its Annual Report by September 30 in accordance with Section 21 of its Act. However, since 2000, the annual reporting process has been altered due to changes in other legislation. For example:

- The Corporation's audited financial statements were included in its Annual Report as required by the Act. These financial statements are now required by June 30 each year for publication in Volume I of the Public Accounts. As a result, the Corporation now publishes an annual review that does not include its financial statements. The Corporation provides its financial statements to interested parties.

- As a crown corporation, In*NOVA*corp is now required to prepare an annual accountability report in accordance with the Provincial Finance Act. Guidelines for the preparation of the accountability report are provided by Treasury and Policy Board (T&PB). The guidelines indicate that the accountability report will replace the annual report for those entities which prepare an annual report. However, the timing of T&PB's accountability report publication is late and would not achieve technical compliance with In*NOVA*corp's September 30 deadline.

14.20 It is apparent that other legislation is superceding the requirements of the Innovation Corporation Act. The requirement to produce an accountability report rather than an annual report as noted above has also been observed in other entities during assignments conducted by our Office. We suggest that government consider revising existing legislation of affected entities to ensure reporting requirements are made consistent with overall government reporting requirements.

Business Line and Performance Management

14.21 Summary - We evaluated the processes supporting the preparation of annual plans and budgets at In*NOVA*corp, as well as those related to periodic financial reporting, forecasting and monitoring. We also evaluated the performance management systems at the Corporation. Our comments with respect to these areas are noted below.

14.22 Planning, budgeting and reporting - Monthly financial results including budget forecasts to year end are provided to senior management. Interviews with these individuals indicate the frequency and content of these reports are adequate. We noted that the Board receives information on investment results at each of its meetings. As noted in paragraph 14.18 above, Board members also indicated that they are satisfied with this reporting format.

14.23 Performance management - As noted in paragraph 14.19 above, the government's annual reporting requirement for crown corporations has been replaced by an accountability report. As this process evolves, entities will be required to provide measurable targets in annual business plans, and report on progress toward meeting targets.

14.24 A formal performance management system has yet to be developed at In*NOVA*corp. The 2002-03 and 2003-04 business plans for In*NOVA*corp include outcome measures, but management acknowledges these are not used to actually manage or monitor performance on an ongoing basis at this point in time.

Recommendation 14.3

We recommend that a system to monitor, measure and report on performance be developed. Focus should be given to those areas which are critical to the success of, or represent a significant risk to, In*NOVA*corp.

14.25 Management compensation - At the time of our audit, bonuses had been accrued for the year ended March 31, 2002 but not paid. We reviewed the process for determining bonuses to eligible members of senior management. It had yet to be determined whether bonuses would be awarded based on March 31, 2003 results.

14.26 Criteria used to evaluate bonuses for the period were not documented, although we were informed the relevant individuals were well aware of their performance goals and objectives. Management indicated they were using a less formal process due to changes in the organizational structure of In*NOVA*corp, but that they intended to implement a more formal process during the current fiscal year (i.e., 2003-04). This process should be part of the overall performance management system at In*NOVA*corp.

Recommendation 14.4

We recommend that criteria upon which bonuses are to be based should be clearly defined and communicated to the eligible employees. Evaluation against these criteria should be documented.

14.27 The Decision Point - The Decision Point is a subsidiary company of In*NOVA*corp. TDP is developing on-line, web-based mentoring services. The company was established in late 2000 and has an office in Dartmouth (located in the main In*NOVA*corp facility) and in Toronto (located in the office of another shareholder).

14.28 We identified the following instances where TDP operations are being subsidized by In*NOVA*corp.

- In*NOVA*corp owns 77% of The Decision Point and has financed its interest in TDP through shareholder loans. These are non-interest bearing loans and have no specified terms of repayment.
- In*NOVA*corp does not charge rent for the office space used by TDP at In*NOVA*corp's head office.

14.29 The financial position and operating results of TDP are fully consolidated with In*NOVA*corp and therefore inter-company transactions are eliminated on consolidation. However, any services provided by In*NOVA*corp but not charged to TDP provide a benefit to TDP's minority shareholders. Under the current accounting method, the costs of the services contributed to TDP cannot be determined from In*NOVA*corp's financial statements.

Recommendation 14.5

We recommend that any costs associated with the investment or services provided to In*NOVA*corp's subsidiary, The Decision Point, be separately disclosed in In*NOVA*corp's operating results.

Investment Management

14.30 Summary - Criteria, used to assess the overall objectives of the investment management function at In*NOVA*corp and the linkage between these objectives and corporate objectives, were met. The following observations relate to criteria assessing administrative aspects of the investment management function.

14.31 Nova Scotia First Fund - The Nova Scotia First Fund was established in 1989 to assist technology-based companies. As noted previously, the administration of the Fund was transferred to In*NOVA*corp through the Innovation Corporation Act, and program management guidelines were approved by the In*NOVA*corp Board of Directors in February 1996. A summary of the Fund's activities, extracted from the Corporation's audited financial statements, is included in Exhibit 14.2. The balance of the Fund at March 31, 2002, net of the valuation allowance, was $9,393,115.

14.32 Projects are approved by an Investment Review Committee as noted in paragraph 14.14 above. The following are our comments with respect to the guidelines and overall administration of the NSFF.

- The guidelines for the NSFF include eligibility criteria. We tested eight investments representing 71% of the total portfolio to determine whether the initial investment was made in accordance with these criteria. We found no significant instances of non-compliance.

  The eligibility criteria are broad. For example, one criterion notes that a project must be financially viable based on realistic projections. However, the term "viable" is not defined and therefore may be open to interpretation.

  The NSFF recently received an additional $8.0 million. It would be appropriate for the Board to consider a review of the guidelines to determine relevance and whether they still reflect In*NOVA*corp's strategy, especially since the additional investment funds are available. The guidelines should also include criteria for follow-on investments (i.e., additional amounts related to an existing investment).

- The guidelines note that the investment policy for the uncommitted portion of the Fund should include an appropriate mix of fixed return and equity investments. A related investment policy was developed and approved by the Board in 1997, and reviewed and amended in 2000. The policy includes objectives, an allocation strategy and investment quality guidelines.

  The Board is provided with a report which summarizes compliance with this investment policy at each of its meetings. We tested the conclusions of these reports and noted that the conclusions were supported by the information included in the report.

  The policy requires review and update on a periodic basis and we found this has not been done.

- Although the guidelines include overall objectives for the NSFF, management indicated there has not been an assessment to determine whether these objectives have been met. We suggest this be done as part of the overall performance management process for the Corporation.

Recommendation 14.6

We recommend that senior management review the program administration guidelines for the Nova Scotia First Fund. These guidelines should include investment eligibility criteria, and should clearly differentiate the policies related to uncommitted funds. The guidelines should be approved by the Board as it has overall responsibility for administration of the Fund.

Procurement

14.33 Summary - As a crown corporation, In*NOVA*corp is required to follow guidelines outlined in the *Government Procurement Process - ASH Sector*. This requires that procurement processes and practices are open, fair, and subject to the policy objectives laid out in the procurement policy.

14.34 We reviewed In*NOVA*corp's procurement policies and procedures for purchasing goods and services, and for the procurement of services related to consultants and professionals.

14.35 We found the documentation of these policies and procedures out-of-date. For example, the policies still make reference to the purchasing department which no longer exists and there is no mention of the use of Purchase Order (PO) cards. PO cards are used by all staff members for purchasing items up to an authorized limit. Telephone and cellular phone charges are charged to these cards as well.

14.36 Transaction testing - We selected a sample of items related to the following types of transactions:

- ongoing goods or services for which a standing order with a supplier is expected;
- one-of-a-kind purchases of goods or services which require a competitive process; and
- professional services which also require a competitive process.

14.37 The objective of our testing was to determine if In*NOVA*corp was in compliance with government procurement practices. The results of our testing indicated that a competitive process was not used to the extent required. In addition, we noted that professional services were obtained through alternative procurement practices. These practices require that there is documentation to support goods or services obtained through sole-source arrangements. There was no documentation providing rationale for the decision to sole-source these transactions.

14.38 We spoke with a representative from the Procurement Branch of the Department of Transportation and Public Works regarding the process to obtain a standing order from a supplier. Standing orders are obtained by the Province as the result of a competitive process. This ensures the best price is obtained for regular, recurring purchases. These orders protect against price increases, and departments are encouraged to use these suppliers. We suggest that In*NOVA*corp consider using standing orders to obtain recurring goods and services.

Recommendation 14.7

We recommend that In*NOVA*corp update the documentation for its procurement policies and procedures. These policies and procedures should be compatible with Provincial requirements, detail when a competitive process is required, and address the use of purchasing cards.

CONCLUDING REMARKS

14.39 The Nova Scotia Innovation Corporation has undergone significant changes since its creation in 1994. The focus of the Corporation has shifted from manufacturing and related activities to providing services, including equity financing and facilities, to start-up and established companies in the technology sector.

14.40 This was our first review of In*NOVA*corp since it was established. The Board of Directors, management and staff of the Corporation appear to have a vision for the Corporation which is consistent with legislation and with the overall government economic development strategy. We encourage the Corporation to review and update existing policies and procedures to ensure they reflect current practices. We also encourage the Corporation to develop a system to monitor and evaluate its performance in order to assess whether established objectives have been met.

Nova Scotia Innovation Corporation - Governance and Accountability Chart

Exhibit 14.1

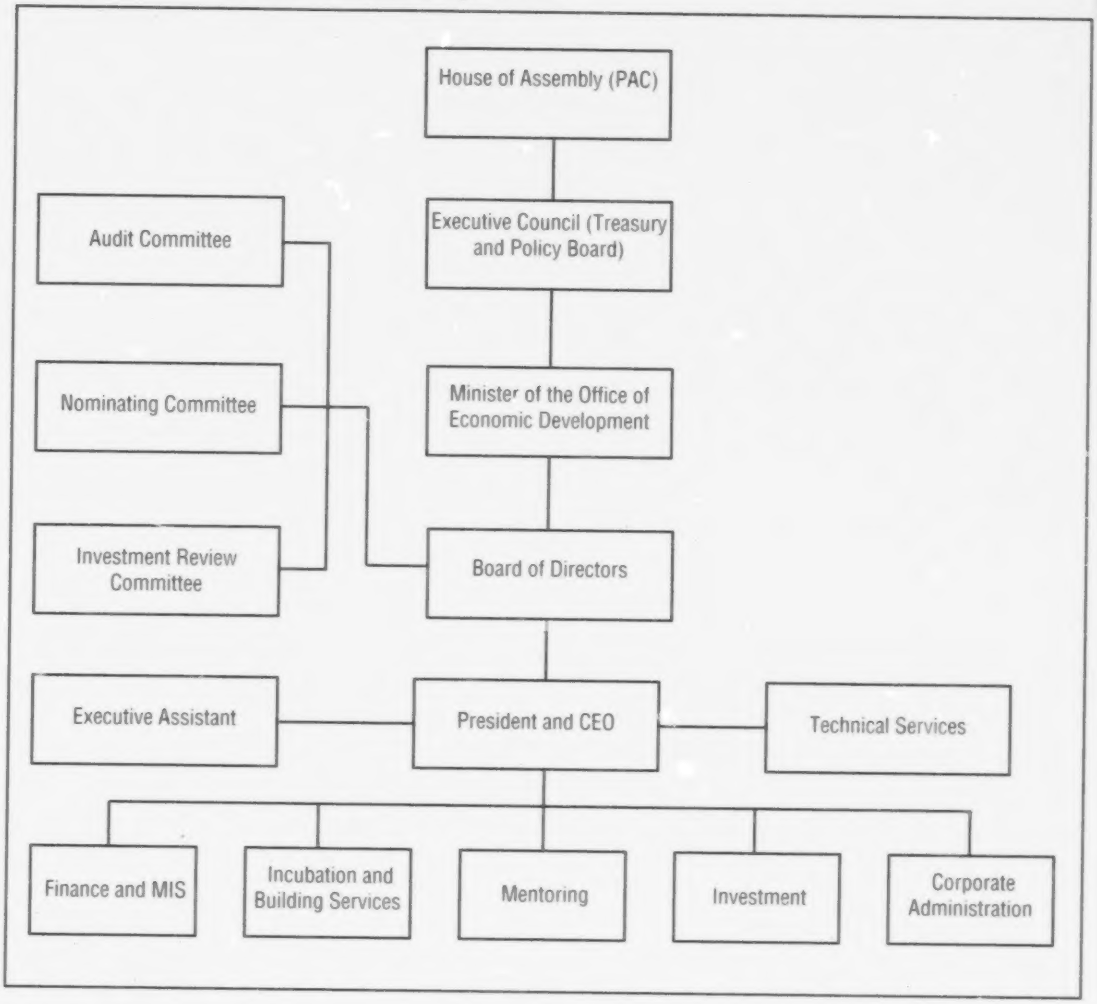
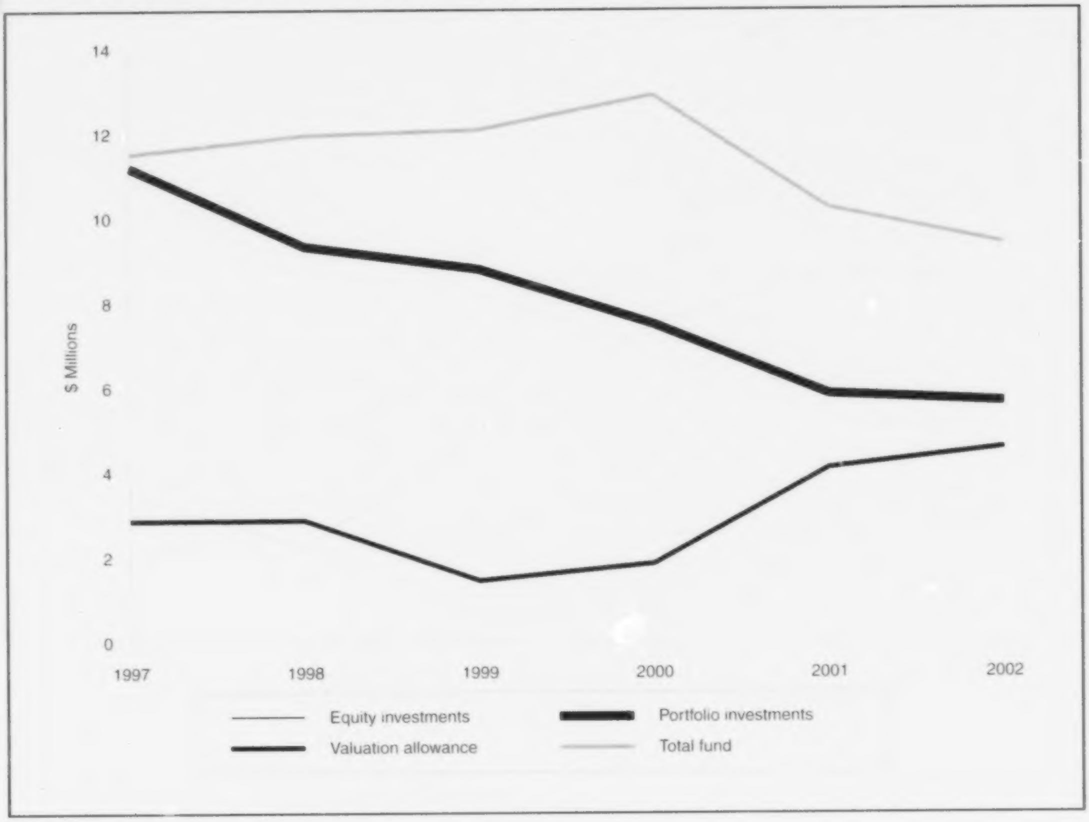


Exhibit 14.2 Nova Scotia First Fund - Summary of Activity 1997-2002



15 REVIEW OF FINANCIAL STATEMENTS AND MANAGEMENT LETTERS

INTRODUCTION

15.1 The financial statements of crown corporations, agencies and funds of the government of Nova Scotia, and trusts administered by the government of Nova Scotia, are in some cases audited by the Office of the Auditor General and in other cases by private sector auditors licensed under the Public Accountants Act.

15.2 Section 17 of the Auditor General Act permits this Office to conduct additional reviews of those entities where financial statements are reported on by private sector auditors. This Chapter of our Report contains comments on our review of the results of private sector audits, as well as comments on audits performed by this Office.

15.3 The financial statements of the Public Archives of Nova Scotia were subjected to a review, rather than an audit, as the operating budget of the Archives is now part of the annual budget of the Department of Tourism and Culture.

FINANCIAL STATEMENT AUDITS BY PRIVATE SECTOR AUDITORS

15.4 We reviewed the audited financial statements and reports prepared by private sector auditors. Our review focused on whether:

- there were any qualifications of auditors' opinions on the financial statements;
- the audit opinion was based on Canadian generally accepted accounting principles, or on a disclosed basis of accounting;
- there was any indication of inadequate controls over accounting records; and
- there was timely preparation and audit of annual financial statements.

15.5 The following observations resulted from our review.

Reservations of Opinion

15.6 The auditor of the Art Gallery of Nova Scotia issued a qualified audit opinion on its financial statements. As a charitable organization, the Art Gallery of Nova Scotia derives revenues from donations, special events, corporate campaigns and other sources. The completeness of this revenue is not susceptible to conclusive audit verification. This is the usual situation for charitable organizations.

Disclosed Basis of Accounting

15.7 The following entities' financial statements were prepared on a disclosed basis of accounting rather than Canadian generally accepted accounting principles.

- The financial statements for all school boards were prepared using accounting principles for Nova Scotia School Boards as prescribed by the *District School Board Financial Handbook* published by the Department of Education. The matter is discussed further in Chapter 5 of this Report (see page 73).
- The Nova Scotia Film Development Corporation and Nova Scotia Power Finance Corporation financial statements were prepared on a disclosed basis of accounting.
- The Sherbrooke Restoration Commission's financial statements were prepared using accounting principles for museum boards in Nova Scotia as prescribed by the Department of Tourism and Culture.

Financial Controls and Records

15.8 In certain instances, private sector auditors reported weaknesses in internal control in management letters to crown corporations or agencies. The following are selected summary observations on matters included in the management letters issued and available for our review.

- The auditors of the IWK Health Centre noted various computer and access control issues.
- The auditors of the Art Gallery of Nova Scotia commented that all projects of significant consequence should receive approval from the Board of Directors.
- The auditors of the Halifax Regional School Board raised concerns surrounding the controls in place over the Excel and International Student programs. They also noted various computer-related issues surrounding documentation of policies, access controls and monitoring.

  The auditors suggested that the Board request government to have an independent auditor report on the design and ongoing effectiveness of the internal controls of SAP.
- The auditors of the Strait Regional School Board suggested that the Board request government to have an independent auditor report on the design and ongoing effectiveness of the internal controls of SAP.
- The auditors of the Southwest Regional School Board suggested that the Board request government to have an independent auditor report on the design and ongoing effectiveness of the internal controls of SAP.

  The auditors also noted that IT control logs should be enabled.

- The auditors of the Metropolitan Housing Authority suggested that the Board request government to have an independent auditor report on the design and ongoing effectiveness of the internal controls of SAP.
- The auditors of District Health Authorities 1, 2 and 3 noted that the disaster recovery plan needs to be updated and that offsite storage of backups is required.
- The auditors of District Health Authority 5 indicated that backup policies for computer records have not been consistently followed.
- The auditors of the Waterfront Development Corporation reiterated prior years' concerns surrounding access and password controls.
- The auditors of the Resource Recovery Fund Board Inc. indicated that follow-up and monitoring procedures should be implemented on approved program funding files.
- The auditors of Nova Scotia Municipal Finance Corporation suggested that management request government to have an independent auditor report on the design and ongoing effectiveness of the internal controls which govern the business critical information systems outsourced by the corporation.
- The auditors of Nova Scotia Business Incorporated (NSBI) noted that loans with special repayment arrangements were not being followed up on a timely basis to ensure that amounts coming due were being properly monitored and reviewed. There were also instances where loan valuation review forms were not signed off properly.

FINANCIAL STATEMENT AUDITS BY THE OFFICE OF THE AUDITOR GENERAL

15.9 The Auditor General is responsible for the annual audit of the consolidated financial statements of the Province of Nova Scotia. See Chapter 2 for comments and observations.

15.10 The Auditor General is also responsible for the annual financial statement audits of certain crown corporations, agencies, funds and trusts. The following observations resulted from such audits conducted by or for the Office. For the year ended March 31, 2003, the Office contracted nine financial statement audits with private sector audit firms. The Office signed contracts with these firms and provided oversight supervision for the audits. The auditor's report for each set of financial statements was signed by the Auditor General of Nova Scotia.

Reservations of Opinion

15.11 The result of an audit is an opinion on whether financial statements present fairly the financial position of the entity at its fiscal year end and the results of its operations for the year then ended. Where there are qualifications of an audit opinion or situations in which it was not possible to render an opinion, we believe it is appropriate to report on the matter.

15.12 The auditor's report on the March 31, 2003 financial statements of Industrial Expansion Fund referred to a disclosed basis of accounting rather than Canadian generally accepted accounting principles. The auditor's report was qualified because approval of write-offs was outstanding when the statements were finalized. Section 23 of the Provincial Finance Act requires all such write-offs be approved by Executive Council.

15.13 The auditor's report on the March 31, 2003 financial statements of the Nova Scotia Talent Trust was qualified because the Trust derives revenues from fund-raising activities and donations. The completeness of this revenue is not susceptible to conclusive audit verification. This is the usual situation for this type of organization.

15.14 The auditor's report on the March 31, 2003 financial statements of the Public Trustee Trust Funds was qualified because the nature of the Public Trustee's operations makes it impossible to provide an opinion on the completeness of its trust assets. This is not an unusual situation for such trust funds.

System Weaknesses

15.15 During the Office's financial statement audits, situations were noted where accounting and control systems or procedures were deficient. Although they were not of a magnitude to require reservation of an audit opinion, a number of these situations are summarized in this Chapter.

15.16 Industrial Expansion Fund (IEF) - There are issues surrounding the impact of changes made to the terms of financial assistance packages on the loan balances in the accounting records. The Fund should also establish clear accounting guidelines for the recording of environmental liabilities.

15.17 Nova Scotia Legal Aid Commission - The Commission still needs to reconcile the accounts payable sub-ledger to the general ledger on a timely basis.

15.18 Nova Scotia Public Trustee - The Trustee should move from the cash basis to the accrual basis of accounting in order to comply with Canadian generally accepted accounting principles. A reconciliation of the mail book to the deposit slips is needed.

15.19 Nova Scotia Housing Development Corporation - There were several instances where annual reviews of housing sponsors were not completed. These reviews are used to determine need for reserves related to projects. Weaknesses were noted in controls over cheque requisitions which led to a duplicate payment being made in one situation. Management ultimately discovered the error.

Timeliness of Financial Reporting

15.20 The Provincial Finance Act requires that financial statements for government business enterprises and government service organizations be submitted to the Minister of Finance by June 30 following the fiscal year end (usually March 31). As noted in Chapter 5 of this Report (page 69), there are inconsistencies between the Provincial Finance Act and the Education Act regarding the submission deadline which should be rectified.

15.21 The following entities and trusts were not fully successful in providing audited financial statements and requested information by June 30:

- Art Gallery of Nova Scotia
- Cape Breton District Health Authority
- Collège de l'Acadie
- Conseil scolaire acadien provincial
- Industrial Expansion Fund
- Insured Prescription Drug Plan Trust Fund
- Members' Retiring Allowances Act Accounts
- Nova Scotia Community College
- Nova Scotia Government Fund
- Nova Scotia Housing Development Corporation
- Nova Scotia Innovation Corporation
- Nova Scotia Liquor Commission
- Nova Scotia Power Finance Corporation
- Nova Scotia Public Service Long Term Disability Plan Trust Fund
- Nova Scotia Teachers' Pension Fund
- Public Archives
- Public Service Superannuation Fund
- Sydney Environmental Resources Limited
- Sydney Steel Corporation
- Sydney Steel Corporation Superannuation Fund

15.22 The Province's March 31, 2003 consolidated financial statements were released on November 13, 2003, prior to the statutory deadline of December 31.

Other Audit Observations

16 ADDITIONAL APPROPRIATIONS

BACKGROUND

16.1 Every year the Estimates, representing the government's spending plans, are presented to the House of Assembly for review and approval. The review and debate by the House of government's annual Estimates culminates in the approval of spending authority limits (i.e., appropriations), and has a long and well-established tradition in the parliamentary process. The Estimates are summarized in the Appropriations Act which, when passed by the House, provides the spending and borrowing authority for the coming year.

16.2 The Provincial Finance Act provides Executive Council with the authority to approve adjustments to these spending plans in the form of additional appropriations. The Provincial Finance Act also permits Executive Council to approve special warrants when an expenditure, which was not provided for in the original Estimates, is urgently and immediately required.

16.3 Exhibit 16.1 on page 244 includes extracts from the Provincial Finance Act relating to additional appropriations and special warrants.

16.4 Section 9(2)(e) of the Provincial Finance Act requires that the *Public Accounts* include a summary listing of any additional appropriations or special warrants authorized for the fiscal year. Under Section 9A(1)(c) of the Auditor General Act, we are required to call attention to every case in which an appropriation was exceeded and every case in which a special warrant was made pursuant to the provisions of the Provincial Finance Act.

PRINCIPAL FINDINGS

Additional Appropriations

16.5 Page A17 of the March 31, 2003 Public Accounts Volume 1 identified additional appropriations required for the year ended March 31, 2003 of $69,591,000. This additional spending authority is yet to be approved by Order in Council (OIC). Under Section 28(3) of the Provincial Finance Act as amended May 30, 2002, OIC approval now needs to be obtained *"no later than ninety days after tabling of the Public Accounts."*

16.6 Additional appropriations totaling $205,019,000 for fiscal year 2002 were approved by OIC #2003-25 in January 2003 (see Exhibit 16.2, page 245).

16.7 The timing of the OIC approvals impairs the effective control by and accountability to the House of Assembly for expenditures in excess of original spending authority limits.

Special Warrants

16.8 There were no special warrants for the 2002-03 fiscal year.

CONCLUDING REMARKS

16.9 Current legislation and administrative practices impair the effectiveness of the House of Assembly's control over changes to spending authority for public funds. The practice of putting in place after-the-fact approval for additional spending authority does not constitute or support *effective control* by the House.

16.10 Recent statutory changes establishing a deadline for obtaining additional appropriations have resolved an administrative challenge of government regarding compliance. However, parliamentary control of and accountability for government's spending are at risk of being further impaired because the statutory provisions do not require approval prior to spending.

Exhibit 16.1

Extracts From the Provincial Finance Act

Additional appropriations

28 (1) Where the amount provided in an appropriation is insufficient to carry out the purpose for which the appropriation was made, the principal officer having responsibility for the service shall make a report of that fact to the Minister and shall, in such report, estimate the supplemental sum required to carry out the service.

(2) Upon receipt of a report pursuant to subsection (1), the Minister may make a report to the Governor in Council showing the need for the additional appropriation and the Governor in Council may order that such supplemental sum as is deemed necessary be appropriated accordingly.

(3) Commencing with the fiscal year 2001-02, an order under subsection (2) shall be made no later than ninety days after the tabling of the Public Accounts following the end of the fiscal year for which the appropriation that is supplemented was made.

(4) The Minister shall, within fifteen days of the making of an order pursuant to subsection (2), table the order in the House of Assembly if the House is then sitting or, if it is not then sitting, with the Clerk of the Assembly.

Special Warrant

29(1) When it appears that an expenditure which was not provided for by the Legislature is urgently and immediately required for the public good, the head of the department concerned shall make a report of that fact to the Minister of Finance and shall in such report estimate the amount of the proposed expenditure.

(2) Upon receipt of such report, the Minister may make a report to the Governor in Council that the said expenditure is urgently and immediately required for the public good, and that there is no legislative provision therefore, and the Governor in Council may thereupon order a special warrant to be prepared to be signed by the Lieutenant Governor for the issue of the amount estimated to be required, and may order the amount to be charged to Capital Account or to Current Account, or partly in one way and partly in the other.

(3) A special warrant pursuant to the provisions of this Section shall not be made when the Legislature is in session unless the House of Assembly has not sat for any of the five days immediately preceding the issue of the special warrant.

Additional Appropriations Approved

Exhibit 16.2

Department	2002	2003
Department of Agriculture and Fisheries	$ 3,070,000	$ 2,167,000
Department of Community Services	11,820,000	19,311,000
Office of Economic Development	14,592,000	-
Department of Education	15,939,000	1,472,000
Assistance to Universities	500,000	5,030,000
Department of Health	18,715,000	15,770,000
Emergency Measures Organization of Nova Scotia	1,460,000	1,950,000
Government Contributions to Benefit Plans	1,203,000	-
Nova Scotia Petroleum Directorate	1,440,000	729,000
Nova Scotia Sport and Recreation Commission	1,128,000	-
Department of Service Nova Scotia and Municipal Relations	-	4,235,000
Department of Tourism and Culture	1,488,000	1,048,000
Department of Transportation and Public Works	-	14,215,000
Restructuring	19,941,000	-
Debt Service Costs	24,350,000	-
Capital Purchase Requirements	61,513,000	-
Sinking Fund Instalments and Serial Retirements	27,860,000	3,664,000
	$ 205,019,000	$ 69,591,000

17 CASH AND OTHER LOSSES

BACKGROUND

17.1 Section 9A(1)(e) of the Auditor General Act requires that we report identified losses of public property through fraud, default or mistake of any person. This Chapter summarizes the losses identifed by or reported to us.

RESULTS IN BRIEF

17.2 The following summarizes the principal findings from our review.

- The losses reported to us for the year ended March 31, 2003 totaled $71,785; consisting of cash losses of $11,154, property losses estimated at $215,176 and recoveries of $154,545.

SCOPE OF REVIEW

17.3 Our objective was to review the information provided by departments and agencies and compile a summary listing of the cash and property losses reported to us for the year ended March 31, 2003. This review did not consider write-offs of uncollectible receivables or advances approved annually by Executive Council.

17.4 We sent letters to departments and other crown entities to confirm the completeness of the losses reported to us. We have performed no additional or specific audit procedures on the losses reported.

PRINCIPAL FINDINGS

Losses Reported

17.5 The following is a summary of the cash and property losses for the year ended March 31, 2003 identified either as a result of our confirmation request or reported to us during the year. Losses reported for property lost or damaged are determined by the entities on a historical cost, estimated market value or estimated replacement cost basis.

Departments Reporting Losses	**Cash**	**Property**	**Recoveries**	**Total**
Agriculture and Fisheries	$ 879	$ -	$ -	$ 879
Environment and Labour	-	9,290	-	9,290
Health	-	4,309	-	4,309
Justice	327	7,800	-	8,127
Natural Resources	-	9,923	-	9,923
Service Nova Scotia and Municipal Relations	40	-	-	40
	1,246	31,322	-	32,568
Other Crown Entities Reporting Losses				
Capital District Health Authority (DHA #9)	-	9,907	-	9,907
Colchester East Hants District Health Authority (DHA #4)	-	56,299	(45,019)	11,280
Cumberland Health Authority (DHA #5)	-	1,300	-	1,300
Pictou Health Authority (DHA #6)	-	17,735	(17,735)	-
South West Nova District Health Authority (DHA #2)	75	-	-	75
Eastern Mainland Housing Authority	-	17,173	(17,173)	-
IWK Health Centre	-	37,088	(27,213)	9,875
Nova Scotia Community College	833	19,720	-	20,553
Nova Scotia Legal Aid Commission	-	750	-	750
Resource Recovery Fund Board	-	9,510	-	9,510
Tri-County Housing Authority	-	6,000	-	6,000
Public Prosecution Service	-	4,500	-	4,500
Cape Breton - Victoria Regional School Board	9,000	-	(9,000)	-
Halifax Regional School Board	-	-	(38,405)	(38,405)
Office of the Auditor General	-	3,872	-	3,872
	9,908	183,854	(154,545)	39,217
Total Reported	**$ 11,154**	**$ 215,176**	**$(154,545)**	**$ 71,785**

17.6 Losses or potential losses which are the subject of forensic audits and other investigations, either completed or in process in 2002-03, are not included due to the sensitive nature of the information.

CONCLUDING REMARKS

17.7 None of the specific losses reported to us for the 2002-03 fiscal year have been investigated further by our Office at this time. We will consider the results of any follow-up work on the reported losses by government as part of future reviews.

18 TRAVEL EXPENSES

BACKGROUND

18.1 On September 7, 2000, Executive Council approved the Nova Scotia Travel Policy. The policy is applicable to "*all civil servants whose terms and conditions are set out in accordance with the Civil Service Act and Regulations and all bargaining unit staff who are employed by the Government of Nova Scotia, in addition to Ministers, Deputy Heads and other persons traveling on government business, including training. It does not apply to those persons whose travel is governed by other authorities.*" The effective date of the policy is October 1, 2000.

18.2 The policy is designed "*to balance the Government's need to contain costs and demonstrate prudence in the conduct of government activities and the employee's need for convenience when traveling on Government business. These provisions provide for the reimbursement of reasonable expenses necessarily incurred while traveling on government business and do not constitute income or other compensation that would open the way for personal gain.*"

18.3 For the fiscal year ended March 31, 2002, travel expenses collectively totaled approximately $1,218,262 for the Department of Finance, the Office of Economic Development, the Department of Tourism and Culture and the Executive Council Office. Travel expenses, for the nine months ended December 31, 2002, totaled approximately $850,616 for these Departments and Offices.

18.4 For purposes of this audit, travel expense transaction details for the twenty-one months ended December 31, 2002 were extracted from the Province's Corporate Financial Management System.

18.5 Our audit of travel expenses was performed in January and February 2003 under the mandate provided by Section 8 of the *Auditor General Act*.

RESULTS IN BRIEF

18.6 The following is our principal observation from this audit.

- Systems and controls surrounding travel expense claims are adequate to ensure expenses are accurately recorded, reviewed and properly approved. Opportunities for improvements were noted.

AUDIT SCOPE

18.7 The objective of this assignment was to examine selected travel expenses of the Department of Finance, the Office of Economic Development, the Department of

Tourism and Culture and the Executive Council Office to determine the adequacy of:

- systems and controls;
- compliance with the Nova Scotia Travel Policy; and
- due regard for economy and efficiency.

18.8 Our audit focused on travel expenses subject to the Nova Scotia Travel Policy and as such did not include travel expenses of those persons governed by other authorities.

18.9 Audit criteria were developed to assist in the planning and conduct of the audit and in the assessment of the processes and practices related to travel expenses. Our audit approach included interviews with selected staff, an examination of the travel policy, sampling of transactions and a review of other documentation necessary to support an assessment of the objectives and criteria.

PRINCIPAL FINDINGS

18.10 The results of our audit indicated that the systems and controls surrounding travel expense claims are adequate to ensure expenses are accurately recorded, reviewed and properly approved.

18.11 Our testing of 60 sample items noted no significant irregularities in the travel expense claims. All claims were mathematically accurate and properly recorded in the Province's accounts.

18.12 All sample items included evidence of the review and control function while 54 of 60 sample items (90%) included all the appropriate signatures and approvals. We were unable to agree approval signatories to the signing authority book for four sample items and one sample item was not legible. As a result, we were unable to conclude on the approval for these five sample items. The remaining sample item did not include a signature indicating the mathematical accuracy of the claim had been verified. However, the claim included evidence of the review and control process.

18.13 The travel policy does not define the approval process for travel expenses incurred by Ministers. The policy requires expenses claimed on behalf of the Minister to be approved by the Minister. There is no independent approval process for such expenses.

18.14 Issues of non-compliance with the travel policy were noted in three of 60 tested sample items. Two observed instances resulted from a lack of documentation to support the expense claims. As a result, we were unable to conclude on whether those items complied with the policy. The third issue of non-compliance related to an expense claim submitted by a Minister without the required Statement of Travel Expenses form and it was processed without the form.

18.15 The government's policy on rental vehicle insurance, as noted in the travel policy, is inconsistent with the information provided by the Risk Management Branch of the Department of Transportation and Public Works. The travel policy does not provide employees with appropriate guidance as to the current requirements for rental vehicle insurance.

18.16 The Department of Finance and the Public Service Commission (formerly the Department of Human Resources) are "*jointly responsible for regularly monitoring the corporate policy having regard to performance and effectiveness in achieving the policy objectives.*" At the time of our audit, an overall assessment of the performance and effectiveness of the travel policy in achieving its objectives had not been completed.

CONCLUDING REMARKS

18.17 Based on the results of our audit, the Departments and Offices included in this assignment have adequate systems and controls in place to ensure reasonable compliance with the Province's travel policy. Opportunities for improvements to systems and controls, as well as a few instances of non-compliance with the travel policy, were noted.

18.18 We encourage the Department of Finance and the Public Service Commission to complete an audit of travel expenses across government and to assess the performance and effectiveness of the travel policy in meetings its objectives.

Appendix

I AUDITOR GENERAL ACT - SECTIONS 8, 9, 15, 17

AUDITOR GENERAL ACT

SECTION 8

The Auditor General shall examine in such manner and to the extent he considers necessary such of the accounts of public money received or expended by or on behalf of the Province, and such of the accounts of money received or expended by the Province in trust for or on account of any government or person or for any special purposes or otherwise, including, unless the Governor in Council otherwise directs, any accounts of public or other money received or expended by any agency of government appointed to manage any department, service, property or business of the Province, and shall ascertain whether in his opinion

(a) accounts have been faithfully and properly kept;

(b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the capital and revenue receipts;

(c) money which is authorized to be expended by the Legislature has been expended without due regard to economy or efficiency;

(d) money has been expended for the purposes for which it was appropriated by the Legislature and the expenditures have been made as authorized; and

(e) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

SECTION 9

(1) The Auditor General shall report annually to the House of Assembly on the financial statements of the Government that are included in the public accounts required under Sections 9 and 10 of the *Provincial Finance Act*, respecting the fiscal year then ended.

(2) The report forms part of the public accounts and shall state

(a) whether the Auditor General has received all of the information and explanations required by the Auditor General; and

(b) whether in the opinion of the Auditor General, the financial statements present fairly the financial position, results of operations and changes in financial position of the Government in accordance with the stated accounting policies of the Government and as to whether they are on a basis consistent with that of the preceding year.

(3) Where the opinion of the Auditor General required by this Section is qualified, the Auditor General shall state the reasons for the qualified opinion.

SECTION 9A

(1) The Auditor General shall report annually to the House of Assembly and may make, in addition to any special report made pursuant to this Act, not more than two additional reports in any year to the House of Assembly on the work of the Auditor General's office and shall call attention to every case in which the Auditor General has observed that

(a) any officer or employee has wilfully or negligently omitted to collect or receive any public money belonging to the Province;

(b) any public money was not duly accounted for and paid into the Consolidated Fund of the Province;

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature;

(d) an expenditure was not authorized or was not properly vouched or certified;

(e) there has been a deficiency or loss through fraud, default or mistake of any person;

(f) a special warrant, made pursuant to the provision of the *Provincial Finance Act*, authorized the payment of money; or

(g) money that is authorized to be expended by the Legislature has not been expended with due regard to economy and efficiency.

(2) The annual report of the Auditor General shall be laid before the House of Assembly on or before December 31st of the calendar year in which the fiscal year to which the report relates ends or, if the House is not sitting, it shall be filed with the Clerk of the House.

(3) Where the Auditor General proposes to make an additional report, the Auditor General shall send written notice to the Speaker of the House of Assembly thirty days in advance of its tabling or filing pursuant to subsection (2).

(4) Whenever a case of the type described in clause (1)(a), (b) or (e) comes to the attention of the Auditor General, the Auditor General shall forthwith report the circumstances of the case to the Minister.

(5) The Auditor General shall, as soon as practical, advise the appropriate officers or employees of an agency of Government of any significant matter discovered in an audit.

(6) Notwithstanding subsection (1), the Auditor General is not required to report to the House of Assembly on any matter that the Auditor General considers immaterial or insignificant.

SECTION 9B

(1) The Auditor General shall annually review the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly and provide the House of Assembly with an opinion on the reasonableness of the revenue estimates.

(2) The opinion of the Auditor General shall be tabled with the budget address.

SECTION 15

Notwithstanding any provision of this Act, the Auditor General may, and where directed by the Governor in Council or the Management Board shall, make an examination and audit of

(a) the accounts of an agency of government; or

(b) the accounts in respect of financial assistance from the government or an agency of the government of a person or institution in any way receiving financial assistance from the government or an agency of government,

where

(c) the Auditor General has been provided with the funding the Auditor General considers necessary to undertake the examination and audit; and

(d) in the opinion of the Auditor General, the examination and audit will not unduly interfere with the other duties of the Office of the Auditor General pursuant to this Act,

and the Auditor General shall perform the examination and audit and report thereon.

SECTION 17

(1) Where the Governor in Council pursuant to this Act or any other Act has directed that the accounts of public money received or expended by any agency of government shall be examined by a chartered accountant or accountants other than the Auditor General, the chartered accountant or accountants shall

(a) deliver to the Auditor General immediately after the completion of the audit a copy of the report of findings and recommendations to management and a copy of the audited financial statements relating to the agency of government; and

(b) make available to the Auditor General, upon request, and upon reasonable notice, all working papers, schedules and other documentation relating to the audit or audits of the agency accounts.

(2) Notwithstanding that a chartered accountant or accountants other than the Auditor General have been directed to examine the accounts of an agency of government, the Auditor General may conduct such additional examination and investigation of the records and operations of the agency of government as he deems necessary.
